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NOMINATION OF D'WAYNE GRAY

HEARING

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

THE NOMINATION OF D'WAYNE GRAY TO BE CHIEF BENEFITS DIRECTOR, DEPARTMENT OF VETERANS AFFAIRS

FEBRUARY 1, 1990

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NOMINATION OF D'WAYNE GRAY TO BE CHIEF BENEFITS DIRECTOR, DEPARTMENT OF VETERANS AFFAIRS

THURSDAY, FEBRUARY 1, 1990

U.S. SENATE,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 9:33 a.m., in room SR-418, Russell Senate Office Building, Hon. Alan Cranston (chairman of the committee) presiding.

Present: Senators Cranston, Rockefeller, and Murkowski.

OPENING STATEMENT OF CHAIRMAN CRANSTON

Chairman CRANSTON. Good morning to all of you. I am pleased to welcome you to this hearing of the committee to consider the nomination of D'Wayne Gray to be the first Chief Benefits Director appointed by the President under legislation which elevated the Department of Veterans Affairs to Cabinet status.

D'Wayne, welcome to you and to your wife, Joan, and congratulations on your nomination.

As head of the Veterans Benefits Administration, D'Wayne Gray would, if confirmed, be the principal VA executive responsible for a vast array of benefits totaling more than $17 billion—almost 60 percent of VA's yearly expenditures.

Through its 58 regional offices, VBA provides services to a potential clientele that totals 74 million people, or almost 30 percent of the Nation's population. Programs within VBA include a wide array of veterans' benefits: compensation, pension, education, home loan guaranty, vocational rehabilitation, burial payments, and life insurance.

D'Wayne Gray's qualifications are impressive. His distinguished military career covered over 35 years of service in the Marine Corps, beginning with a year and a half as a private and PFC prior to entering the University of Texas. Upon graduation he received his commission.

By the time of his retirement in 1987, he was a three-star general. Along the way he served one tour in Korea and two tours in Vietnam.

From 1979 to 1985 he served in a succession of positions of increasing responsibility at the U.S. Marine Corps Headquarters in Washington, culminating in Chief of Staff, and concluded his service as the Commanding General of the Marine Corps in the Pacific from 1985 to 1987.

His military decorations include the Distinguished Service Medal, Legion of Merit, Bronze Star Medal, Meritorious Service Medal, Air Medal, Joint Service Commendation Medal, Navy Commendation Medal, and Combat Action Ribbon.

Since retirement, D'Wayne has served as a consultant for the Center for Naval Analysis, and, most recently, as Executive Director of the Montgomery County Revenue Authority in Rockville, MD. He currently is serving as a consultant to the Secretary of Veterans Affairs.

D'Wayne, I enjoyed our meeting on January 24. I understand that you then met with members of the committee staff for several hours of frank and open exchange.

In preparation for this hearing today we provided you with 47 questions and followed up with 8 more earlier this week. I apologize for the short timeframe we had to impose, but it is aimed at doing everything we can to achieve Senate action on your nomination before the February 9 recess. I greatly appreciate your prompt attention and expeditious responses to the questions and your candor and directness regarding some of the more personal issues.

In addition to the pressures anyone would normally have in the important position of Chief Benefits Director, you will have the added burden of being a pioneer of sorts. Assuming your confirmation as the 12th Chief Benefits Director, not only will you be the first Presidential appointee, and thus the first CBD to come before this committee for confirmation, but you will also be the first CBD to come from outside of the benefits program career force.

In establishing the statutory position for which you have been nominated, Congress took great pains to ensure the selection of a qualified person and one who would be provided with independence and insulation from political interference. The Department of Veterans Affairs Act specifies that the Chief Benefits Director is to be appointed by the President "without regard to political affiliation or activity." The appointment must be made "solely on the basis of integrity and demonstrated ability in fiscal management and the administration of programs within the Veterans Benefits administration or programs of similar content and scope." And the appointment may be made only after the establishment of an independent search commission, with the majority of members from outside Government, and the commission's recommendation of at least three names to the President, along with the Secretary's comments on those recommendations.

The law further requires that the Chief Benefits Director is to be appointed for a period of 4 years, and that if the President removes the Chief Benefits Director prior to the completion of the appointed term the President must communicate the reasons for that removal to both Houses of Congress.

I was instrumental in authoring these rather extraordinary protective provisions, and I believe very strongly in the importance of each of them in precluding the politicizing of the position of Chief Benefits Director.

I also want to note that Congress quite deliberately chose to make the title of this position the same title that has been attached to it for some 37 years. Although the Chief Benefits Director position is of under secretary rank as an executive level III position, it is not in any way a traditional, political under secretary position filled in the traditional manner that subcabinet jobs throughout the Government are filled. I know of no position in the Federal Government, other than the counterpart position of VA Chief Medical Director that has this degree of statutorily prescribed independence from the political selection process.

I also want to point out that there are a number of other top Department or agency operating officials at the so-called executive level III under secretary level who carry very significant historical titles, such as the Commissioner of Internal Revenue, the Director of the FBI, the Urban Mass Transportation Administrator, and the Archivist of the United States.

D'Wayne, your being the first CBD from outside the agency presents both the opportunities that flow from fresh insights and perspectives, as well as the challenges that lie in the apprehensions of others with whom you will need to work effectively. Based on the conversations you have had with me and the committee staff, I am confident that you will meet these challenges with the sensitivity needed to allay any misgivings and to win the confidence of those you work with and meet.

I want to say a word about the man you are nominated to succeed. John Vogel served as Chief Benefits Director for 4½ years—longer than all but 1 of his 10 predecessors. His tenacious efforts have brought many important advances in benefits processing and administration, despite OMB-imposed reductions of almost 1,000 full-time staff positions during his tenure. Of paramount importance, John Vogel has always been unswerving in his dedication to the best interests of veterans and has at all times acquitted himself with great personal honor, integrity, and honesty. All of the members of this committee, I know, join in wishing John Vogel well in his new career as a VA hospital director.

In closing, I note that the nominee has completed the committee's questionnaire and answered 55 prehearing questions that I have submitted, all of which will be printed in the record of today's hearing, along with a January 30, 1990, letter from the Office of Government Ethics to the effect that the nominee is in compliance with applicable laws and regulations governing conflicts of interest. Further, I note that I have reviewed the FBI report on the nominee, have found no bar to his confirmation, and fully expect to support it.

On that note, D'Wayne, and assuming your confirmation, I look forward to working with you on behalf of our Nation's veterans.

Pursuant to the rules of the committee as recently amended, all nominees will be asked to testify under oath. So, D'Wayne, would you please stand and raise your right hand.

Do you swear or affirm that the testimony you will give to this committee at this hearing today, and any written answers or statements you provide to this committee in connection with this hearing will be the truth, the whole truth, and nothing but the truth?

Mr. GRAY. I do.

Chairman CRANSTON. D'Wayne, in connection with your testimony being under oath today, we are asking now, as I advised you we would, that you submit to the committee, pursuant to the oath that you took, the responses to the prehearing questions that you submitted previously and that you now acknowledge that these written answers, as well as any you will provide in writing in specific followup to this hearing, are submitted to you under oath. Do you agree that those responses are being and will be provided under oath?

Mr. **Gray**. I do, indeed, Mr. Chairman.

Chairman **Cranston**. Thank you, very much.

I understand you do not have a prepared opening statement. We will be glad to extend you the opportunity to say whatever you wish.

TESTIMONY OF D'WAYNE GRAY, NOMINEE TO BE CHIEF BENEFITS DIRECTOR, DEPARTMENT OF VETERANS AFFAIRS

Mr. **Gray**. Thank you, Mr. Chairman, and thank you for the nice words in your introduction.

I am, obviously, honored to be the President's nominee to be the Chief Benefits Director and am honored to appear before this committee in the hope of confirmation.

As you pointed out, sir, I spent some 35 years in the Marine Corps, and that was a happy career. I enjoyed most of that. But that's behind me. That's gone now.

The thing that I remember from it most is the people with whom I served and with whom I was associated with, both in the Marine Corps and in the other services. The prospect of spending the next 4 years in service to those people and to their compatriots of the past and, indeed, of the future, is the brightest prospect that I could imagine as a way to use a few more years of my life.

I don't bring, Mr. Chairman, any ideological stance to my candidacy for this position. The only bias that I have is that in favor of the veteran. They are my people. They are my kind of people, and I love them, and I'm on their side, if one wants a bias to address. The only objective that I will have, both in the executive branch and in dealings with this committee and with the Congress as a whole, is to be sure that they get the fair shake that they deserve and that they find, when they leave the service, a level playing ground on which they can compete with those who do not serve in the armed services.

I am aware, Mr. Chairman, that the design and provision of such benefits requires a partnership between the executive and the legislative branches. Neither branch can do it alone.

I appreciate the fact, as you pointed out, sir, that the legislation that created this job gives the Chief Benefits Director a certain independence, a certain platform from which he can work, that is not the case with all of the President's nominees.

I offer to you, sir, my pledge that, if confirmed, I will try to enhance and to maintain the partnership that I think exists between the executive and the legislative branches, and to make sure that our clients—the people that you serve and the people that I will serve if confirmed, the veterans—get the fair shake that they deserve from the people that they have protected.

I appreciate, sir, your kindness and that of the ranking minority member in receiving me in your offices and the gracious way that you have received me here at this hearing.

I stand ready to attempt to answer your questions, sir.

Chairman CRANSTON. Thank you very much for a very, very fine statement.

Frank, do you have any opening remarks?

OPENING STATEMENT OF SENATOR MURKOWSKI

Senator MURKOWSKI. Thank you, Mr. Chairman. I'll be very brief because I know some of this was covered.

I think we'd all agree that the President has selected an extraordinary individual of considerable leadership experience and unquestionable courage and certainly a fine intellect.

General Gray has served in executive and consulting positions in the private sector, which is always encouraging to me, and, of course, his 35 years in the U.S. Marine Corps duty, as has been indicated, I think make it just that much more relative to what he can bring to the veterans benefits area, which he will head.

I think he is further qualified as he completed his military service as Commanding General of the Fleet Marine Force, Pacific—obviously, the experience of directing, planning, logistics, training all Marine, air, ground support forces in an area that really encompasses, I gather, nearly half the globe. The significant experience in having managed approximately 86,000 personnel—a budget of $1.7 billion, and a $717 million operating budget—is also important.

D'Wayne's experience in managing widely diverse activities over great distances I think will be invaluable when he takes the reins as Chief Benefits Director.

I would hope, General, that Chief Benefits Director will be changed to Under Secretary for Veterans Benefits. I have a little problem with the current title, but that's between you, obviously, and the Secretary. In any event, in that capacity you will be providing services for nearly 75 million people via 58 regional offices, extending from Puerto Rico through the United States, Alaska, and Philippine Islands.

There is no question in my mind, sir, of your ability to carry out these responsibilities for all nonmedical benefits administered by the VA. I'm sure there is no question in soliciting the support of our colleagues for this confirmation.

You, sir, are a rare personality. You have given so much to your country, instead of pursuing your golf handicap and other things. You are committed to a very significant responsibility. We wish you well.

I understand your wife, Joan, has already been recognized, but I, from the minority, want to welcome her. We certainly look forward to your contribution in this very, very substantial area.

Thank you, Mr. Chairman.

Chairman CRANSTON. Thank you, Frank.

We have quite a bit of ground to cover this morning. Despite the many questions we have already submitted to you, I have quite a few more.

Mr. GRAY. Yes, sir.

Chairman CRANSTON. So I would appreciate your keeping your answers as brief as you possibly can, while being responsive.

In your response to prehearing question 1, you stated your belief that the Government owes a special debt of gratitude to those who served and that it is the Government's obligation to provide a set of benefits to veterans and their families to ensure that, to the extent possible, they are not disadvantaged as a consequence of their service relative to those who did not serve.

Some benefits, it seems to me, such as VA pensions and certain burial benefits, are based on the grateful Nation concept rather than avoiding disadvantage. Do you have less support for those benefits?

Mr. GRAY. No, Mr. Chairman, I don't have any particular benefit that I favor or that I'm against. I'm comfortable with the set of benefits that the Congress has provided.

It is true that, as the world changes, undoubtedly there will be necessary changes in the sets of benefits that you have provided, but I don't have a list. I don't have suggestions for the committee at the moment.

Chairman CRANSTON. I assumed that was the case.

The Paralyzed Veterans of America, in its written testimony for today's hearing, states: "It is critical that the new CBD, in his role as a veterans' advocate, forcefully articulate VBA's resource needs in order to effectively improve productivity."

Would you please comment on that strong suggestion from PVA that the Chief Benefits Director be an advocate for the resources that the VBA needs to improve its productivity?

Mr. GRAY. There is no more important task that the Chief Benefits Director could have, Mr. Chairman.

Chairman CRANSTON. I also want to note that I appreciate your statement in your answer to question 4(C) of trust in the VA career force and hope that you do not later find a need to surround yourself with special assistants and consultants who have had no prior VA experience.

Do you have any such plans?

Mr. GRAY. I have no such plans. I have some experience in dealing with people, Mr. Chairman, and I think that I have found, in the office that I'm aspiring to, people who can teach me much and can help me do all the things that the job needs to have done.

Chairman CRANSTON. As I noted in my opening statement, you are coming into a civilian organization as the first outsider to 'gdd the office of Chief Benefits Director. I'm sure that you are aware of how apprehensive this makes some VA employees and how important it is to gain their confidence from the outset.

Ironically, your distinguished military rank of lieutenant general may heighten the concern of some. That suggestion was made in the January 25 Washington Times article in which it is reported that you "rankled a few fellow workers by demanding to be called by your former military title."

I believe you are aware that title 38 of the Code of Federal Regulations prohibits VA employees from using their military title or rank in official publications, correspondence, telephone directories, desk name plates, door signs, or the like, unless they are in active status in the military on detail to VA.

When confirmed and able to address VBA employees for the first time as the new Chief Benefits Director, how do you intend to handle that matter?

Mr. GRAY. First, I was not aware of that regulation until recently, Mr. Chairman, but I was aware that to do something like that would be dumb, and I didn't intend to do that.

I admit certain surprise, because my own—well, one's picture of himself is always faulty, and usually flattering, but I picture myself as the nicest person in the world, and I couldn't imagine how anyone would be concerned about whatever title I used. I am more sensitive than I have been in the past about that.

I shall make clear by precept and example that my Marine Corps career is what I used to have, sir. What I shall be, if confirmed, is the Chief Benefits Director of the Department of Veterans Affairs, and "Mister" is a completely honorable title and one to which I aspire in this office.

Chairman CRANSTON. Thank you very much.

Mr. GRAY. Yes, sir.

Chairman CRANSTON. I have only one followup to your answer to question 10 regarding your role as the president of a 1986 Major General Selection Board. Overall, I found your replies to my questions on that incident to be quite thoughtful and forthcoming. I'd like to know explicitly, however, what you would say in response to concerns that some may have as a result of that incident that, if confirmed, you might not choose to object directly or emphatically or otherwise take appropriate action to resist unwise or inappropriate directives harmful to veterans or VBA from the White House, OMB, or your superiors at VA.

Mr. GRAY. I would say, Mr. Chairman, that had the office that I held at the time of the incident that you're mentioning had the charge and the protection and the characteristics of the office for which I am a candidate now, that episode would have ended in a significantly different manner.

A serving military officer is sworn to obey the lawful orders of those seniors appointed above him, and it is a criminal offense for him not to do so. I am not and do not intend to become a habitual offender of that sort. I did not like the orders I received, but they were lawful, in my judgment, and certified so by the legal authority that was provided as my counsel, and I carried them out.

The office of Chief Benefits Director is significantly different in the ways—I will not reiterate them—that the chairman pointed out in his opening remarks, with the safeguards of independence that the legislation that created the office has put in.

I can only assure you, sir, and the committee, that doing the right thing is the easiest thing in the world for me. Like all human beings, I sometimes have difficulty in determining what the right thing is to do. There are shades of gray. God does not speak directly to me and say, "This is right and this is wrong."

If confirmed, sir, you will find that the Veterans Benefits administration and the Department of Veterans Affairs will have a Chief Benefits Director who has no fear of anyone. Of whom should I be afraid, sir? This is the last entry on my resume.

Chairman CRANSTON. Thank you. Good response.

I appreciate your commitment, in replying to question 34(B), to review the findings of the ongoing investigation into allegations about prohibited personnel practices in connection with a VA employee's appearance before a joint congressional hearing in 1987. In my opening remarks at that hearing I made the following point about the VA employees who testified that day before the joint hearing: "I would like to make clear, as the chairman of the Senate Committee on Veterans' Affairs, that reprisals in any form against these VA employees because of their willingness to respond to the Congress' invitation to testify in this hearing will absolutely not be tolerated."

D'Wayne, do you agree with me that retaliation against employees who cooperate with the Congress is unacceptable?

Mr. GRAY. I think, sir, that retaliation against an employee who cooperates with the Congress is one of the smallest things an official in Government could do, and I will not be a part of it.

Chairman CRANSTON. Good. Assuming your confirmation, I'd appreciate it if you'd issue a statement to that effect to all VBA employees.

Mr. GRAY. I'll be happy to, sir.

Chairman CRANSTON. Fine.

I was interested in your response to question 14 that you were not giving any consideration to making proposals for the revision of any VA benefits. Apparently, then, you are coming with an open mind rather than a program agenda regarding benefits.

In response to question 12, you stated that you did not seek this job; rather, you were recruited for it. These responses do raise two questions. First, who recruited you? And, second, what motivated you to take the job?

Mr. GRAY. I received a telephone call from an active duty military friend who had learned from Secretary Derwinski that a search commission was going to be formed in accordance with the law. He asked if he might put my name forward.

My first official recruiting, if you will, sir, was in a letter from the Deputy Secretary, Mr. Principi, saying that he had received my name as a possible candidate and asking if I would be interested. That was the recruiting. I did not know there was a job entitled "Chief Benefits Director" until that came about.

I was interested when it came forward, and I allowed myself to become a candidate. I wound up here today.

I did it, Mr. Chairman, because I couldn't not do it. The opportunity to serve the millions of people with whom I have served, and those who served in the past and will serve in the future was one that I could not, in good conscience, turn down. I've gotten used to, in my life, doing what I think the country needs me to do. As I told those who interviewed me, if I'm the best candidate you can get for that job, I will take it.

I would like this opportunity, sir, to thank my wife for tolerating that. She was very happy with me playing golf, instead. But the habits of 35 years as a Marine wife will stand her in good stead as I go back to work in Government.

Chairman CRANSTON. Does your wife have any comments?

Mr. GRAY. She doesn't yet know about the dual compensation law, Mr. Chairman.

Chairman CRANSTON. D'Wayne, I believe that Automated Data Processing modernization will be one of the most challenging administrative responsibilities you will face. I was glad to see your support for ADP research and development and that you endorse the idea of pilot programs and test stations. These are relatively new concepts for VBA and will need the force of your persuasion when money allocations are being discussed within the executive branch.

I want you to know that when you push for ADP initiatives and innovations, you will have my very strong support.

Mr. GRAY. Thank you, sir.

Chairman CRANSTON. I'm sure that you noted from my questions that I do not agree with the OMB policy that relates funds for ADP enhancements directly to personnel reductions and thus arbitrarily extracts personnel cuts as the price for ADP approvals. You indicated that VBA also does not think that such FTEE reductions are good policy.

Does this express your personal sentiment, as well?

Mr. GRAY. It does, Mr. Chairman.

Chairman CRANSTON. The fiscal year 1991 budget request for VBA includes a cut of 266 FTEE from the fiscal year 1990 level and explains the reduction this way: "Most of the reduction is attributable to savings generated from the short-term initiatives associated with the VBA's modernization program." So that's what you have to work with for fiscal year 1991 unless Congress reverses that proposed cut.

Would you comment on your view of the fairness of the 266-FTEE cut next year as the price of further funding of ADP enhancements?

Mr. GRAY. Mr. Chairman, because I was not a part of the formulation of this budget and don't know exactly how those numbers came about, I would rather at least defer, if not avoid, answering that question directly.

I am told that the VBA has, in the past, offered FTEE in exchange for certain elements of its ADP modernization—offered or has negotiated that position. Whether these numbers in that question are a part of that or are a part of some other arrangement, I'm sorry, sir, I do not know the answer to the question.

Chairman CRANSTON. I would like to suggest that you reflect on that and give us a written response early next week.

Mr. GRAY. I would be glad to, sir.

[Subsequently, Mr. Gray furnished the following information:]

I am advised that the FY 1991 budget request accurately describes the reason for the proposed cut in FTE and that a portion of the cut indeed was a fair tradeoff for the increased productivity the ADP modernization should provide. Specifically, 233 of the 266 positions are associated directly with our own detailed cost-benefit analysis.

I am further advised, however, that the remainder of the modernization program is directed more toward improving the quality and timeliness of the VBA's service to the veteran, rather that the automation of routine manual operations of the sort that can result in direct FTE savings.

Chairman CRANSTON. Will you be working, if confirmed, to avoid more staffing reductions by OMB next year as the price of further funding of ADP enhancements?

Mr. **Gray**. From what I have learned in the short time that I have been receiving briefings at the VBA, sir, we have done what we can do as far as trading staff positions for ADP modernization. What we need to do now is to use the modernization to work smarter, not to trade off people—to do our jobs better rather than to do jobs that otherwise would take manual functions, labor, people we could give up in exchange for modernization.

Chairman **Cranston**. In question 19 I indicated my dissatisfaction with the backlog of pending disability compensation cases, noting that in fiscal year 1989 almost 69 percent took more than 180 days to decide. In your response you, too, expressed your concern about processing delays and said you would seek to improve the timeliness of processing disability claims, as well as all other types of claims. You said that VA's budget submissions have been directed toward establishing a trend of improving both timeliness and quality of processing.

How, specifically, does the fiscal year 1991 budget request to do this?

Mr. **Gray**. The major element, in my quick observation of the 1991 budget, is the $32 million in the ADP modernization, Mr. Chairman. With the completion of this modernization program as I believe it to be designed, and as I would have it if I have the opportunity to influence it, the ability to shift work from place to place electronically, at will, as capabilities and workload develop, ought to contribute toward a more rapid processing of claims and requests, and cut down, to some extent, on the time lag.

If I had to pick one particular item that I have determined so far would be most useful in cutting down that waiting time, it would be in the beginning of the modernization of ADP systems.

Chairman **Cranston**. When do you expect that the established trend will bring the processing timeliness within VA's own published standards, which call for completion of 70 percent of the decisions within 180 days?

Mr. **Gray**. Mr. Chairman, I would be beyond the elastic limit of my knowledge to try to give you a time on that. I do not know. As soon as possible is as close as I can come to it. I'd be guessing to put a date on it.

Chairman **Cranston**. I realize the difficulty of that. Please take a look at that and respond next week, to the best of your ability.

Mr. **Gray**. I understand, sir. I will be glad to.

Chairman **Cranston**. I realize you can't be precise about it.

Mr. **Gray**. Yes, sir.

[Subsequently, Mr. Gray furnished the following information:]

The VBA's method of measuring processing timeliness is based on 12-month cumulative data. The last 5 months of processing timeliness data for original compensation claims (shown below) do show a trend toward improving timeliness, with 4 of the last 5 current months data exceeding the standard. Based on the current trend of improving timeliness, one could anticipate reaching the standard of 70 percent in 15 to 18 months.

NATIONAL TIMELINESS AVERAGES FOR THE LAST 5 MONTHS

[Original Compensation Claims]

	Current month	12-month cumulative
August	69.8	68.4
September	71.1	68.5
October	70.6	68.4
November	71.8	68.6
December	72.4	68.7

Chairman CRANSTON. In your response to question 28, you cited the loan production system as a step toward improving processing of home loan documents. Can you tell us how close VA is to completing this new system and what priority this project will have for you, if confirmed?

Mr. GRAY. My memory does not allow me to answer how soon it is. If I may provide that later, I will.

It is an important part of the total system. It is one of a number of systems. And, of course, the home loan guarantee program has got certain difficulties that need to be corrected. The implementation of the recently-passed legislation regarding it and the loan processing system will be a part of that.

Important? I don't know how to rank it yet amongst all of the things, but near the top.

[Subsequently, Mr. Gray furnished the following information:]

Phase I of the Loan Production System consists of four subsystems: Code Sheet Elimination (CSE), Construction and Valuation (C&V), Loan Processing (LP), and Property Management (PM). The first three (CSE, C&V and LP) are either developed and ready for final implementation, or in the final stages of testing. Future exportation cannot occur until completion of a competitive procurement for a high-level programming language, which is required to operate the system at all sites. Assuming completion of the procurement in the third quarter of FY 1990, nationwide implementation of C&V will begin in July and be completed within a year. Nationwide exportation of LP will begin in August and also be completed within 1 year. CSE implementation will be completed by March 1991.

A functional design has been completed for Property Management. However, programming will be delayed until resolution of two issues: a sizing study will determine the appropriate platform on which the system should be run, and programming cannot begin until award of the competitive procurement mentioned previously. After these issues are resolved, a schedule will be developed.

Phase II of the Loan Production System, which includes the LGY Index, Portfolio Loan System (PLS) Replacement, and redesign of Loan Service and Claims (LS&C) processing, has not been funded for FY 1991; therefore, no schedule has been developed.

This is a very important project, which is moving ahead at a reasonable pace, given its complexity and size.

Chairman CRANSTON. Good.

Your response to question 29 stated that the Houston pilot loan-servicing project has shown that increased servicing can reduce foreclosures substantially—producing an 18-percent reduction in guaranty claims over the previous year in Houston. This seems to confirm much of what many of us on the Veterans' Affairs Committees have been saying for years about the value of stepped-up efforts in VA loan servicing.

Do you have any plans to implement the Houston pilot project on a wider scale?

Mr. GRAY. I don't have any plans, sir, meaning that no decision has been taken. But the success story, as it has been described to me, of the Houston system is certainly one that ought to be emulated in those places where the circumstances are similar.

Chairman CRANSTON. Could you give us a report by March 1 on what will be done in that regard?

Mr. GRAY. Yes, sir.

Chairman CRANSTON. You indicated in your response to question 30(A) that you support the administration's proposal to eliminate the manufactured housing loan program. Why wouldn't our Nation's veterans be better served by some alternatives to complete elimination of that program, such as excluding active-duty military personnel or by more strict enforcement of VA underwriting rules which the VA IG found were ignored in 25 percent of those loans?

Mr. GRAY. To take that in part, sir, it would seem to me to be unfortunate if we should restrict any segment of the currently eligible veterans, including specifically the active-duty people, from eligibility for benefits such as that.

The information that I have been given is that a very high percentage of the manufactured home loans go into default; that other problems exist in that obviously a manufactured home, like an automobile, begins to depreciate instantly when it comes out of the showroom; and that the standard underwriting principles may not fit, as they have been used in those loans. And, as a business decision, the Department had decided to eliminate that category of loan.

Certainly, if the committee would like, that can be re-examined, at least at my level, if confirmed. I don't know where the Secretary is personally on this matter. It just has not been a matter of discussion.

Chairman CRANSTON. Why don't you take a look at the possibility of revising the underwriting standards rather than simply eliminating the whole program?

Mr. GRAY. I'd be glad to do that, sir.

Chairman CRANSTON. Please get in a report by March 1 on what is done on that front.

Mr. GRAY. Yes, sir.

Chairman CRANSTON. In response to question 31(A), you indicated your support for vendee loan sales as long as it is necessary for VA to seek appropriations to meet its obligations. Taking a somewhat longer view, why would not keeping VA's vendee loan assets and the stream of income they produce be preferable to selling them off for a purely short-term gain?

Mr. GRAY. I got that question, of course, from the chairman earlier. I understand very clearly the logic of the answer that I provided, and it makes sense to me. In a time when short-term efforts need to be made to reduce the deficit and hopefully to begin to reduce the debt, selling appears to me to be the right approach to prevent us having to come to you for appropriations any more than necessary to operate the Department, Mr. Chairman.

Chairman CRANSTON. Our concern is that this may eliminate a good program. I'd suggest you take a look and see if it can be improved rather than eliminated.

Mr. GRAY. Thank you, sir.

Chairman **Cranston**. In your response to question 32 you referred to "several recent changes" to the VA credit underwriting standards for home loans. Would you please provide the committee with a description and a copy of these changes and the measures to which you also referred that VA has taken to improve the quality of underwriting?

Mr. **Gray**. I shall, sir.

Chairman **Cranston**. If you could do that by early next week I'd appreciate it.

Mr. **Gray**. I'd be glad to.

[Subsequently, Mr. Gray furnished the following information:]

The following measures have been taken in recent years to improve the quality of VA's credit underwriting:

1. Establishing standard residual income guidelines by region and loan size.
2. Establishing a debt-to-income ratio as an additional method of assessing risk.
3. Establishing requirements for higher level review and written justification for loans not meeting prescribed standards.
4. Requiring pay stubs for all loan applicants (Leave and Earnings Statement for Active Duty Personnel) to validate income information used to qualify veterans.
5. Underwriting buydown loans at the note interest rate.

[Copies of the administrative issues implementing the above changes appear on p. 33.]

Chairman **Cranston**. Jay Rockefeller, do you have any questions?

Senator **Rockefeller**. Thank you, Mr. Chairman. I have one question of my esteemed chairman.

You have just written a letter, I believe, with respect to the need for more current, immediate, supplementary funds—I think it is about $252 million—to the President. If committee members are allowed to sign onto that letter, I would like to do that. I share your concern that a supplemental funding request is crucial for the VA to provide the care that veterans are entitled to—and desperately need—this year.

Chairman **Cranston**. Certainly.

Senator **Rockefeller**. Great. There's still time?

Chairman **Cranston**. Yes.

Senator **Rockefeller**. OK. Great. Thank you.

When I came in were you talking about the VA home loans?

Chairman **Cranston**. Yes.

Senator **Rockefeller**. Have you questioned Mr. Gray about the 4 percent required downpayment provision that was included in President Bush's budget?

Chairman **Cranston**. We haven't gotten to that aspect.

Senator **Rockefeller**. Then why don't you go to that one? Let me just ask one question, Mr. Gray. I would call myself a basically friendly witness, and I look forward to supporting your nomination and working very closely with you.

Mr. **Gray**. Thank you, Senator.

Senator **Rockefeller**. Frankly, I have a very parochial question. A case worker in our Charleston VA office says that it automatically takes up to 2 months for a VA hospital to provide the necessary documentation records requested by a VA regional office in order to process a veteran's disability compensation case. The case worker in the Charleston office has told me the delays seem to be automatic and expected, and that it oftentimes takes 6 months for a case to be processed and for a decision to be made on a veteran's case.

Now, I was a Governor for 8 years and I know about how it is so easy for politicians to say that kind of thing and to say they could get it done in 2 days. Of course, it's different when you are dealing with a large number of people. But 6 months is a long time.

I don't know that I expect you to answer that, but on an automatic documentation request by the VA regional, 2 months would seem to me to be a long time. If there is anything that you have to say about that now, obviously I'd be glad to hear it. But, again, maybe it would be interesting to get a formal response at some point on why it does take so long in these cases.

Mr. GRAY. I don't know, Senator. I can't verify. I have not the experience to verify the numbers, but I have no reason to challenge what your case worker tells you.

What I can tell you is that 6 months is too long for anybody to have to wait for something that they are entitled to from the Government—the VA or anybody else.

Now, can I make that different? I don't know. But I am determined to try. If I am confirmed, I am determined to try to do that. It is unconscionable if there is a way we can do it better and we don't.

Senator ROCKEFELLER. And there probably is, isn't there?

Mr. GRAY. I would think so.

Senator ROCKEFELLER. Yes.

Mr. GRAY. I would certainly hope so. I'm going to be a very frustrated Chief Benefits Director if there's not, if I get that job.

Senator ROCKEFELLER. Yes. Could you take a look at that?

Mr. GRAY. Absolutely, sir. I'd be glad to.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Chairman CRANSTON. Thank you, Jay. Do you have any further questions?

Senator ROCKEFELLER. No.

Chairman CRANSTON. I want to say, frankly, I'm disappointed with some of your other answers to my written questions regarding the VA home loan programs. Your answers reflect what seems to me to be perhaps a degree of readiness to accept the administration's traditional doctrine on these subjects, and I'm concerned that you exercise the critical, independent judgment that you are obviously capable of and take a fresh look at the issues that are of concern here.

To give an example, your response to question 31(C) stated that the VA has improved its return on the sale of vendee loans from 57.9 percent of face value to 83.7 percent. But I want to point out to you that the higher figure you cite was for a single, unstructured sale of an unusually high-quality, older pool of loans that constituted the cream of VA's vendee loan portfolio and really can't be replicated now for several years. The net proceeds of the last three structured without-recourse sales each were less than 60 percent of face value.

I would appreciate it if you would check into that a little bit further and give us your thoughts next week.

Mr. GRAY. It was on my agenda without the question, sir, to learn more about that matter, and I shall be glad to.

Chairman CRANSTON. Fine.

[Subsequently, Mr. Gray furnished the following information:]

I am assured that the 83.7 percent cash sale proceeds figure did not refer to the whole loan sale of seasoned portfolio accounts which was held in 1989; it referred to the structured securitized sale of newer loans which was held on January 25, 1990. A complete report on this sale will be forwarded to the Congress within 60 days, in accordance with statutory requirements.

Chairman CRANSTON. Another example of my concerns about your home loan answers relates to your response to question 52 concerning the President's proposal to require a downpayment on VA loans for the first time since the program's inception way back in 1944. There you said, "We do a disservice to veterans when we guarantee loans that they are financially incapable of handling," implying that you think any veteran who can afford even a modest home loan should be able to afford both the downpayment and the fee increase that the President's budget has proposed.

It seems to me that your answer clearly failed both to deal with the fee increase, which is a matter of concern, and to distinguish between financial ability to make monthly payments and financial assets available for a downpayment, which are two very different matters. This distinction is the keystone of the entire VA loan program. Moreover, it is the role of underwriting standards to screen out those who are financially incapable of making monthly payments.

D'Wayne, I'm troubled by your unwillingness to concede that the combination of the fee increase and a 4-percent downpayment would prevent otherwise qualified and very deserving veterans from using the VA entitlement to buy a home. So would you please re-examine that matter and let us hear from you again early next week?

Mr. GRAY. Of course, Mr. Chairman.

Chairman CRANSTON. Thank you.

[Subsequently, Mr. Gray furnished the following information:]

I find it reasonable to believe that an increase in the funding fee from 1.25 percent to 1.75 percent will not prevent veterans from obtaining VA guaranteed loans. In the vast majority of cases, the funding fee is financed as part of the loan and the increase in the veteran's monthly payment would be insignificant. For example, on an $80,000 loan, there would be a $3.37 increase in the monthly payment.

With regard to the downpayment proposal, I do believe that most veterans who are able to afford home loans should also be able to afford this modest downpayment. Clearly, there will be some cases in which the veteran's inability to make a downpayment will keep an otherwise qualified and deserving veterans from buying a home. However, it has been clear that the existence of even a small downpayment makes a loan less risky. On balance, the needs of the veterans' community and the need to maintain a solvent program are both served well by this proposal.

Chairman CRANSTON. In your response to question 52(B) relating to a possible downpayment requirement that the Government National Mortgage Association is considering imposing for the new, higher VA loans, you stated, "Veterans obtaining loans above the current Ginnie Mae VA-loan maximum of $144,000 would be second-time homebuyers who would be able to utilize the equity from the sale of their first home for any downpayment required." I'm really not sure what you would base that on. That provision's legislative history clearly demonstrates that the increase was aimed at helping all veterans in high-priced real estate markets to purchase even a modest home.

You have lived in the Washington area, and in Hawaii, California, and many other places across the country. I would like to ask if you believe that a veteran that has a spouse and one or two children would find many homes in the Honolulu, Washington, or LA areas for less than $144,000?

Mr. **Gray**. Nothing more than renovated garages, Mr. Chairman.

Chairman **Cranston**. Right. So that's a matter we have to take into account.

Mr. **Gray**. Yes, sir.

Chairman **Cranston**. In your response to question 53 you took issue with the GAO report that found VA used cheaper alternatives to foreclosure in less than 3 percent of default terminations. You stated that GAO examined only foreclosures, and thus didn't take into account all the cases in which defaults were cured. But the report did not examine only foreclosures. As you point out, that would not be a sensible measure of how well VA used foreclosure alternatives. In fact, GAO looked at default terminations—including foreclosures, deeds in lieu of foreclosures, compromise agreements, and so-called refunding—and found that 97 percent of default terminations were foreclosures.

I am concerned about your possibly being too willing to accept the Loan Guaranty Service position on this matter, and I urge you to avoid starting out with the assumption that GAO had no point here. Would you please take another look at that and, if confirmed, report back by March 1?

Mr. **Gray**. Absolutely, sir.

Chairman **Cranston**. In your response to question 55 you stated, "With our nonstructured recourse sale auctions, there could be no guarantee that the prices offered by bidders were the best prices which could be obtained."

Here, again, I'm concerned about your response. In a with-recourse sale the loans are sold with the full faith and credit of the United States behind them. Investors find that to be just about the best guarantee there is. I have never heard it argued that investors would not pay top dollar for any asset that is so guaranteed.

Don't you agree that the proceeds of a straight with-recourse sale with the full Government guarantee always can be expected to exceed the proceeds from a structured sale or a without-recourse sale?

Mr. **Gray**. It is reasonable to me, Mr. Chairman, that what you say is correct. I qualify it that way because I have much to learn about this process—the various ways in which these loans have been sold. So let me say that what you say makes sense to me, but don't mistake me for someone who knows what he is talking about.

[Subsequently, Mr. Gray furnished the following information:]

Yes, but it is my understanding that while with a full resource sale more cash proceeds are received upfront, VA must pay money out over time as loans go into default. With a nonrecourse sale, although less cash is received up front, VA receives securities which provide future income and VA avoids the obligation to spend money to repurchase loans in the future.

Chairman **Cranston**. If, as you come to grips with that, you find otherwise, let us know.

Mr. GRAY. Yes, sir.

Chairman CRANSTON. You also stated that VA is attempting to reduce the extra costs associated with these structured sales. Do you not agree that any such costs are always going to be costs that VA would not incur if the same vendee loans were sold with recourse—precisely because of the Government-guaranteed nature of a recourse sale?

Mr. GRAY. My answer, again, is the same as the last one, sir. What you say makes sense to me.

Chairman CRANSTON. Good. Then your rejoinder makes sense to me. Again, let us know if you find out later that's not the case.

Mr. GRAY. Indeed, sir.

Chairman CRANSTON. Would you take another look at that and report back next week?

Mr. GRAY. Yes, Mr. Chairman.

[Subsequently, Mr. Gray furnished the following information:]

It is true VA incurs additional costs on structured sales. However, I understand that whenever VA sells either recourse or nonrecourse loans, the buyer does not hold the loans. Rather, the buyer places them in pools and issues securities based on the pools. The costs of this "securitizing" are either paid directly by VA in a structured sale or indirectly as a pass-through in a nonstructured sale.

Chairman CRANSTON. You stated in your responses to questions 37 and 38 that you agree that the VA and military disability retirement systems must be based on a single philosophy. The recent GAO report has raised the question as to whether either or both systems should apply a causal rather than a temporal connection between the particular medical condition and the individual's service. Where do you stand on that issue?

Mr. GRAY. I stand on my experience, sir. When I entered the military service, I was told that if I did my job and I got sick, the Government would take care of me; if I became disabled, they would take care of me and my family. I am at the same place now that I was in 1952 when I came on active duty. I am intelligent enough to know that arguments can be made on the other side of that question, Mr. Chairman, but I am comfortable with the situation as it exists at the moment.

Chairman CRANSTON. I want to compliment you on your support of employee training and your recognition of training as the key to providing high-quality service. Will getting the needed budget resources for staff training be a priority for you in the 1992 budget?

Mr. GRAY. It has to be, Mr. Chairman. Without well-trained people we can't do the many jobs that you and the veterans expect us to do.

Chairman CRANSTON. Right.

I was also pleased to see, in your response to question 43, that plans for the Adjudication Training Academy are well underway for fiscal year 1990 and will be continued in fiscal year 1991. Do you intend to provide for this training program in 1992? What priority would you give to that?

Mr. GRAY. It will be a high priority, assuming that our experience with the first classes is as good as we expect it to be, Mr. Chairman.

Chairman CRANSTON. In response to prehearing question 43(B) you stated that you had no indications that the PTSD claims coordinators were not being sufficiently consulted. Based on the fifth annual report of the Special Committee on PTSD, however, it seems unclear that these coordinators are being consulted, and even whether their identities are known and their phone numbers published within VBA. Would you please provide for the record a list of the PTSD claims coordinators, the Department's official description of the position, and a statement of how their function and identity has been or will be communicated throughout VBA?

Mr. GRAY. Yes, sir.

Chairman CRANSTON. Thank you.

[Subsequently, Mr. Gray furnished the following information:]

As requested, a list of our PTSD coordinators and their phone numbers is enclosed. This list was published as attachment A to Circular 21-88-1, which was the document issued to describe the duties and responsibilities of the coordinators. [A copy is enclosed for your information on p. 60.]

Circular 21-88-1 was distributed to all adjudicators, rating specialists and veterans benefits counselors in each of our regional offices. In addition, two copies were sent to each VA medical facility and one copy went to each Vet Center.

Chairman CRANSTON. In response to the first part of prehearing question 44(A) you described your efforts while in the Marine Corps to monitor the careers of minority officers and also your role in instituting a study to determine the maximum number of women that the Marines could maintain consistent with your assigned missions. I was pleased to read of these efforts, and I would like to ask you to work closely with VA's Office of Equal Employment Opportunity in furthering EEO goals in VBA should you be confirmed. I trust you will do that.

Mr. GRAY. I willingly and happily will do that, Mr. Chairman.

Chairman CRANSTON. I was also pleased to read that VBA and VHS&RA have undertaken a joint effort to share EEO training programs for managers and supervisors at the regional medical education centers. I believe that EEO goals are tremendously important and that Government programs, in particular, have a special responsibility to pursue them. Because of my strong interest in this area, I will continue to look closely at VBA's EEO performance and ask that you keep the committee advised as to VBA's experiences with such training and other efforts in the EEO area.

Mr. GRAY. Willingly, sir.

Chairman CRANSTON. I agree totally with the disappointment in VBA's utilization of special contract funding for counseling that you expressed in your response to question 50(B), and I appreciate your attention to that matter. Would you, if confirmed, please review this further and provide me with a more complete answer by March 1?

Mr. GRAY. Indeed, sir.

Chairman CRANSTON. In response to question 51 regarding the appropriateness of the large average caseload for VA vocational rehabilitation specialists and the current delays in obtaining appointments with them, you stated you were not yet in a position to know if increased staffing is the solution. Would you please report back to me the results of your examination by March 1, 1990, if you are confirmed?

Mr. GRAY. Yes, sir.

Chairman CRANSTON. That concludes my questions. I will have some further written questions for you. Other Senators may have written questions, as well. Senator Simpson specifically asked that he be permitted to submit some questions to you.

We ask that you have your responses to any written questions and to the followups I asked for today back to us early next week. Monday would be the best, if you can manage to do that—except where I requested a specific subsequent date for response after confirmation, assuming that you will be confirmed.

If there is nothing further—and I don't think there is—this meeting now stands adjourned. I thank you very much for your presence and for your responsiveness and for your succinctness in your responses.

Mr. GRAY. Thank you, Mr. Chairman. Thank you for your kindness today and in the past.

Chairman CRANSTON. Thank you very much.

[Whereupon, at 10:25 a.m., the committee was adjourned, to reconvene at the call of the Chair.]

APPENDIX

FLOOR STATEMENT OF CHAIRMAN ALAN CRANSTON ON THE NOMINATION OF D'WAYNE GRAY TO BE CHIEF BENEFITS DIRECTOR, DEPARTMENT OF VETERANS AFFAIRS

Mr. CRANSTON. Mr. President, as Chairman of the Committee on Veterans' Affairs, I rise in support of the nomination of D'Wayne Gray to be the Chief Benefits Director of the Department of Veterans Affairs, for a term of 4 years. Mr. Gray is the first nominee to this position under the legislation, the Department of Veterans Affairs Act (Public Law 100-527), which elevated the Veterans' administration to cabinet status. Section 3(c) of that measure also provided, for the first time, for the Chief Benefits Director to be a Presidential nominee subject to Senate confirmation and prescribed a statutory term of 4 years. Previously, the Chief Benefits Director was named by the Administrator of Veterans' Affairs, with no statutorily-established term.

Our committee—by a poll completed today—has voted 11-0 in support of Mr. Gray's nomination. Since, however, we were not able to meet to vote on the nomination, we are proceeding by way of unanimous consent to have the committee discharged from further consideration in order to obtain Senate action before the Senate goes out today.

As head of the Veterans Benefits administration (VBA), D'Wayne Gray would be the principal VA executive responsible for the payment and administration of a vast array of benefits, which will involve total expenditures of $16.4 billion in FY 1990—nearly 60 percent of VA's projected expenditures for this year. Through its 58 regional offices, VBA provides services to a potential clientele that totals 74 million people or almost 30 percent of the Nation's population. Programs within VBA include, among others, service-connected disability compensation, non-service-connected disability pension for wartime veterans, survivors' benefits, education, home loan guaranty, vocational rehabilitation for service-disabled veterans, and life insurance.

QUALIFICATIONS OF THE NOMINEE

Mr. President, as I noted during the Committee's February hearing on this nomination, D'Wayne Gray's qualifications are impressive. His distinguished military career covered over 35 years of service in the United States Marine Corps, beginning with a year and a half as a private and PFC prior to entering the University of Texas. Upon graduation he received his commission. By the time of his retirement in 1987, he was a three-star General. Along the way, he served three tours in combat theaters, one in Korea and two in Vietnam. From 1979 to 1985, he served in a succession of positions of increasing responsibility at the U.S. Marine Corps Headquarters in Washington, culminating in his service as Chief of Staff, and concluded his service as the Commanding General of the Marine Corps in the Pacific from 1985 to 1987. His military decorations include the Distinguished Service Medal, Legion of Merit, Bronze Star, Meritorious Service Medal, Air Medal, Joint Service Commendation Medal, Navy Commendation Medal, and Combat Action Ribbon.

In establishing the statutory position for which Mr. Gray has been nominated, Congress took great pains to ensure the selection of a qualified person and to provide that person with independence and insulation from political interference. Section 3(c) of Public Law 100-527 specifies that the Chief Benefits Director is to be appointed by the President "without regard to political affiliation or activity." The appointment must be made "solely on the basis of integrity and demonstrated ability in fiscal management and the administration of programs within the Veterans Benefits administration or programs of similar content and scope." Moreover, the appointment may be made only after the establishment of an independent Search Commission, with the majority of members from outside Government, and the Commission's submission of recommendations of at least three individuals to the President along with the Secretary's comments on those recommended by the Commission. The law requires that the Chief Benefits Director be appointed for a term of 4 years with successive reappointments permitted and provides that, if the President removes the Chief Benefits Director prior to the completion of the appointed term, the President must communicate the reasons for removal to both Houses of Congress.

I was instrumental in authoring these rather extraordinary protective provisions, and I believe very strongly in the importance of each of them in precluding the politicization of the position of Chief Benefits Director.

I also want to note that Congress quite deliberately chose to make the title of this position the same title that has been attached to it for some 37 years. Although the position is of Under Secretary rank as an Executive Level III position, it is not in any way a traditional, political Under Secretary position—filled in the traditional manner as subcabinet jobs throughout the Government are filled. I know of no position in the Federal Government—other than the counterpart position of VA Chief Medical Director—that has this degree of statutorily-prescribed independence from the political selection process.

Further, it is notable that there are a number of other top Department or agency operating officials at the so-called Executive Level III, Under Secretary level who carry significant historical titles which have not been altered, such as the Commissioner of Internal Revenue, the Urban Mass Transportation Administrator, the Director of the FBI, and the Archivist of the United States.

Mr. President, the fresh insights and perspectives which Mr. Gray brings from outside the Department likely will afford him many opportunities within it; by the same token, there will be equally significant challenges for him—including some arising from the apprehensions of others about his being an outsider. Based on the nominee's remarks to me and committee staff throughout the confirmation process and his responses to questions posed by committee members prior to, during, and subsequent to his confirmation hearing, I am confident that he has the capacity to meet these challenges with the sensitivity needed to allay any misgivings and to win the confidence of those with whom he will work and interact.

Finally, I note that the committee received a January 30, 1990, letter from the Office of Government Ethics to the effect that Mr. Gray is in compliance with applicable laws and regulations governing conflicts of interest and that my review of the FBI report on the nominee has revealed no bar to his confirmation. Assuming Senate action to confirm this nomination, I look forward to working with D'Wayne Gray in ensuring that our Nation's veterans are well served and receive all the benefits to which they are so justly entitled.

Mr. President, on behalf of the Committee on Veterans' Affairs, I recommend this nomination to the Senate.

PREPARED STATEMENT OF SENATOR STROM THURMOND

Mr. Chairman, I am pleased to be here this morning for the first Veterans' Affairs Committee hearing of 1990. It is a pleasure to have with us D'Wayne Gray, former Lieutenant General in the Marine Corps and current nominee to be Chief Benefits Director of the Department of Veterans Affairs.

Having graduated from the University of Texas in 1952, General Gray went on to spend the next three decades serving his country in the armed forces. With the Marine Corps career spanning almost 40 years, he understands well the needs of the men and women who have served this country in uniform. In 1987, Mr. Gray concluded his military service as Commanding General of the Fleet Marine Force in the Pacific.

He is a recipient of the Distinguished Service Medal, the Legion of Merit, the Bronze Star, the Meritorious Service Medal, and several other awards.

As the nominee for Chief Benefits Director, General Gray will be responsible for a proposed 1991 budget of $11.3 billion. I am confident he will do a fine job, and I am pleased to offer my support.

Again, Mr. Chairman, it is a pleasure to be here, and at this time I must leave to attend another meeting.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

PART I: ALL THE INFORMATION IN THIS PART WILL BE MADE PUBLIC

Name: Gray (LAST) D'Wayne (FIRST) (OTHER)

Present address: 3423 Barger Drive Falls Church (CITY), VA (STATE) 22044 (ZIP CODE)

Position to which nominated: Chief Benefits Director Date of nomination: January 23, 1990

Date of birth: 9 (DAY) April (MONTH) 1931 (YEAR) Place of birth: Corsicana, Texas

Marital status: Married Full name of spouse: Mary Joan Gray

Names and ages of children: Stephen D'Wayne Gray 33; Elizabeth Joan Gray 31; Theresa Mary (Gray) Croghan, 29

Education:

Institution (including city and State)	Dates attended	Degrees received	Dates of degrees
George Washington Univ., Washington, D.C.	9/70-7/71	M.S.I.A.	9/71
University of Texas Austin, TX	9/49-5/52	B.A.	5/52
North Texas Agric. College Arlington, TX	9/48-5/49	None	

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Distinguished Service Medal; Legion of Merit (2); Bronze Star Medal; Meritorious Service Medal (2); Air Medal (5); Joint Service Commendation Medal; Navy Commendation Medal; Combat Action Ribbon

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable, and other organizations for the last five years and any other prior memberships or offices you consider relevant.

Organization	Office held (if any)	Dates
Please see attached list.		

Employment record: List below all employment (except military service) since your twenty-first birthday, including the title or description of job, name of employer, location of work, and inclusive dates of employment.

Executive Director, Montgomery County Revenue Authority,

Rockville, MD 6/89-1/90

Self-employed consultant, Falls Church, VA, 10/87-1/90

Military service: List below all military service (including reserve components and National Guard or Air National Guard), with inclusive dates of service, rank, permanent duty stations and units of assignment, titles, descriptions of assignments, and type of discharge.

Please see attached list.

Government experience: List any advisory, consultative, honorary, or other part-time service or positions with Federal, State, or local governments other than those listed above.

Special Government Employee (unpaid),
Naval Research Advisory Committee,
Jul 1988 - Sep 1989

Published writings: List the titles, publishers, and dates of books, articles, reports, or other published materials you have written.

None, except for occasional book reviews in military journals.

Political affiliations and activities: 1. List all memberships and offices held in and financial contributions and services rendered to any political party or election committee during the last 10 years.

None.

2. List all elective public offices for which you have been a candidate and the month and year of each election involved.

None.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association, or organization if you are confirmed by the Senate.

All connections have been severed.

2. State whether you have any plans after completing government service to resume employment, affiliation, or practice with your previous employer, business firm, association, or organization.

No.

3. What commitments, if any, have been made to you for employment after you leave Federal service?

None.

4. (If appointed for a term of specified duration) Do you intend to serve the full term for which you have been appointed?

Yes.

5. (If appointed for an indefinite period) Do you intend to serve until the next Presidential election?

N/A

Potential conflicts of interest:

1. Describe any financial arrangements, deferred compensation agreements, or other continuing financial, business, or professional dealings which you have with business associates, clients, or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None.

2. List any investments, obligations, liabilities, or other financial relationships which constitute potential conflicts of interest with the position to which you have been nominated.

None.

3. Describe any business relationship, dealing, or financial transaction which you have had during the last five years, whether for yourself, on behalf of a client, or acting as an agent, that constitutes a potential conflict of interest with the position to which you have been nominated.

None.

4. Describe any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat, or modification of any Federal legislation or for the purpose of affecting the administration and execution of Federal law or policy.

None.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items. (Please provide a copy of any trust or other agreements involved.)

N/A

Testifying before the Congress:

1. Do you agree to appear and testify before any duly constituted committee of the Congress upon the request of such committee?

Yes.

2. Do you agree to provide such information as is requested by such a committee?

Consistent with the obligations imposed on all officials of the Executive Branch to uphold the Constitution and laws of the United States, including, where appropriate, the need to comply with guidance governing communications from the Executive Branch to Congress, such as 31 U.S.C. § 1108, OMB Circular A-11 and Executive Privilege.

Memberships

Marine Corps Association		1952 - Current
U. S. Naval Institute	Director	1955 - Current
Marine Corps Historical Foundation		1983 - Current
Asia Society of Washington		1988 only
Lake Barcroft Community Association		1972 - Current
Natural Sciences Foundation Advisory Council, University of Texas		1988-1989
Virginia Chamber Orchestra	Trustee	1988 only
Aloha Council, Boy Scouts of America	Member, Executive Board	1985-1987
Girl Scout Council of the Pacific	Member, Advisory Board	1985-1987
Hawaii State Chapter, American Red Cross	Member, Board of Directors	1985-1987
"Just Say No" of Hawaii	Member, Board of Directors	1985-1987
The Social Science Association of Honolulu		1985-1987
The Oahu Council		1985-1987
Honolulu-Pacific Federal Executive Board		1985-1987

Military Service

Jul85-Sep87	LtGen	Commanding General, Fleet Marine Force, Pacific, Camp H. M. Smith, Hawaii
Jun79-Jul85	LtGen MGen BGen	Headquarters, U.S. Marine Corps, Washington, D.C. Served consecutively as Director of Plans, Director of Operations, Director of Personnel Management, and Chief of Staff
Aug77-May79	BGen	Assistant Division Commander, 1st Marine Division, Camp Pendleton, California
Jun74-Jul77	Col	Special Assistant and Marine Corps Aide to the Under Secretary of the Navy, Washington, D.C.
Jul72-Jun74	Col LtCol	Head, Enlisted Assignment Branch, Headquarters, U.S. Marine Corps, Washington, D.C.
Jul71-Jul72	LtCol	Officer in Charge, Sub Unit 1, 1st Air and Naval Gunfire Liaison Company, Vietnam
Jul70-Jun71	LtCol	Student, Naval War College, Newport, Rhode Island
Mar67-Jun70	LtCol Maj	Plans Officer, Joint Planning Group, Headquarters, U.S. Marine Corps, Washington, D.C.
Jan66-Feb67	Maj	Head, Vietnamese Section, Language Branch, Marine Corps Education Center, Quantico, Virginia
Jan65-Dec65	Maj	Operations Staff Officer and Infantry Battalion Executive Officer, III Marine Amphibious Force, Vietnam and Japan
Jun64-Dec64	Maj	Student, Foreign Service Institute, Department of State, Washington, D.C.
Aug63-May64	Maj	Student, Junior School, Marine Corps Schools, Quantico, Virginia
Apr63-Aug63	Maj Capt	Chief Range Officer, Marine Corps Schools, Quantico, Virginia
Apr60-Mar63	Capt	Battery Commander and Battalion Staff Officer, 3d Battalion, 12th Marines, Marine Corps Air Station, Kaneohe Bay, Hawaii
Aug59-Jan60	Capt	Student, U.S. Army Artillery School, Fort Sill, Oklahoma
Aug56-Aug59	Capt	Administrative Officer, Historical Branch, Headquarters, U.S. Marine Corps, Washington, D.C.
Jan55-Jul56	Capt 1stLt	Artillery Staff Officer, Marine Corps Training Center, Twentynine Palms, California

Military Service
(continued)

Aug54-Jan55	1stLt	Executive Officer, 1st Provisional 75mm Pack Howitzer Battery, Marine Corps Air Station, Kaneohe Bay, Hawaii
Jun54-Aug54	1stLt	Assistant Operations Officer, 1st 155mm Gun Battalion, Marine Corps Training Center, Twentynine Palms, California
Jul53-Apr54	1stLt 2dLt	Artillery Forward Observer and Assistant Regimental Operations Officer, 11th Marines, 1st Marine Division, Korea
May53-Jul53	2dLt	Company Officer, Staging Regiment, Camp Pendleton, CA
Jan53-Apr53	2dLt	Student, U.S. Army Artillery School, Fort Sill, OK
Aug52-Dec52	2dLt	Student, Basic School, Marine Corps Schools, Quantico, VA
Sep49-Aug52	MIDN	NROTC, University of Texas, Austin, TX
Apr48-Sep49	Pfc Pvt	2d 155mm Howitzer Battalion, U.S. Marine Corps Reserve, Fort Worth, Texas (Honorable discharge)

AFFIDAVIT

District of Columbia

D'Wayne Gray, being duly sworn, hereby states that he/she has read and signed the foregoing Statement for Completion by Presidential Nominees and that the information provided therein is, to the best of his/her knowledge and belief, current, accurate, and complete.

D'Wayne Gray
Signature of Nominee

Subscribed and sworn before me this 26th day of January, 1990

Elizabeth C. [illegible]
Notary Public
My Commission Expires September 30, 1991

United States
Office of Government Ethics
Suite 500, 1201 New York Avenue, N.W.
Washington, D.C. 20005-3919

January 30, 1990

The Honorable Alan Cranston
Chairman
Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by General D'Wayne Gray, who has been nominated by President Bush to be the Chief Benefits Director, Department of Veterans Affairs.

We have reviewed the report and have also obtained advice from the Department of Veterans Affairs concerning any possible conflict in light of its functions and the nominee's proposed duties. Based thereon, we believe that General Gray is in compliance with the applicable laws and regulations governing conflicts of interest.

Sincerely,

Donald E. Campbell

Donald E. Campbell
Acting Director

Enclosure

OGE-106
October 1989

Veterans Benefits Administration
Department of Veterans Affairs
Washington, D.C. 20420

Circular 26-80-11
Revised
Change 3
December 13, 1989

CREDIT STANDARDS

1. The purpose of this change is to: (a) announce a new document requirement in connection with loan applications; (b) require military LESs (Leave & Earnings Statements) for active duty loan applicants; and (c) include military retirees as eligible for a minimum reduction in residual income figures like that presently afforded active duty applicants.

a. Effective February 1, 1990, an original pay stub when provided by the employer will be required in addition to an employment verification for the applicant and all coobligors with submission of a loan application. This applies to full- and part-time employment. A carbon copy of the pay stub which is no more than 90 days old will be acceptable when the original is not furnished to the applicant by the employer. A photocopy will not be acceptable. For loans closed automatically, this requirement will be considered satisfied if the date of the pay stub is within 90 days of the date of the veteran's application to the lender.

b. Effective February 1, 1990, military LESs will be required with loan submissions for active duty service members. An LES will be acceptable in lieu of an employment verification. While there is no standardized statement for all service departments, each version contains essentially all of the information necessary to meet VA's requirements. When the expiration date of the current service obligation is imminent, additional clarifying documentation will be necessary to verify any pending reenlistment actions or firm offers of civilian employment, and/or amounts of any military retirement pay. To be acceptable, the statement must be an original and no more than 90 days old.

c. Effective immediately, applicants who receive military retirement income may be considered eligible for a minimum of 5 percent reduction in residual income figures when the property is located reasonably near to a military base/installation.

2. Effective as stated above, Circular 26-80-11, Revised, is changed as follows:

Page 1

Below entry for paragraph 2e add:

"(1) Employment Income and Verification 6

(a) Employment Income ....6".

Redesignate entry for subparagraph "(1)" as "(b)".

LOCAL REPRODUCTION AUTHORIZED
WANG OFFICE VERSION SENT 12/15/89

Circular 26-30-11
Revised
Change 3

December 13, 1989

Page 6, paragraph 2

Below subparagraph e add

"(1) Employment Income and Verification"

Redesignate existing subparagraph "(1) Verification" as "(a) Employment Income" and lines 24 through 31: Delete "If the veteran ... to the lender."

Below newly designated subparagraph "(a)" add

"(b) Verification. A minimum of 2 years employment must be verified. If the veteran or spouse has been employed by the present employer for less than 2 years, verification of prior employment covering a total of 2 years must be obtained unless it consisted of active military duty. For employment of shorter periods, see subparagraph (8) below entitled Employment of Short Duration. VA Form 26-8497, Request for Verification of Employment, may be used in verifying loan applicants' income and employment information. Since this form is not required, any format is acceptable provided all of the information requested on VA Form 26-8497 is furnished. In addition to the employment verification(s), an original pay stub will be required when provided by the employer for full- and part-time employment. A pay stub will be required for the applicant and all coobligors. A carbon copy of a pay stub will be acceptable if the employer does not furnish an original to the applicant. Photocopies will not be acceptable. The employment verification and pay stub must be compared for consistency. Substantial differences in the data that would have a bearing on the qualification of the applicant must be clarified. In the case of an active duty applicant, a military LES (Leave & Earnings Statement) will be required and will be acceptable in lieu of an employment verification. There is no standardized statement for all service departments; however, each version contains essentially all of the information provided on VA Form 26-8497. If the expiration date of the current service obligation is imminent, additional clarifying documentation will be necessary to verify any pending reenlistment actions or firm offers of civilian employment, and/or amounts of any military retirement pay.

NOTE: Employment verifications, pay stubs, and LESs must be no more than 90 days old to be considered valid. For loans closed automatically, this requirement will be considered satisfied if the date of the documents is within 90 days of the date of the veteran's application to the lender."

Page 14, paragraph 2e(12)(c), below "TABLE ... $70,000 AND ABOVE)," lines 10 through 16 (as amended by change 2): Delete and insert "This reduction may also be applied to retired military applicants when the property is located reasonably near to a military base or installation."

December 13, 1989

Circular 26-80-11
Revised
Change 3

3. Extracts. Field stations will reproduce paragraphs 1 and 2 of this circular change for distribution to all lenders, referring to local release designations for the previous distribution of the Extract of Circular 26-80-11, Revised, dated December 2, 1987. Copies of these releases need not be sent to Central Office.

4. RESCISSIONS: Circular 26-85-9 and unrelated Circular 26-87-40.

R. J. Vogel
Chief Benefits Director

Distribution: CO: RPC 2021
SS(265B1) FLD: VBAFS, 1 each (Reproduce and distribute based on RPC 2021)

26A1A
FILE

(EXTRACT OF DVB CIRCULAR 26-80-11, REVISED
DATED December 2, 1987)

CREDIT STANDARDS

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(NOTE: This contents page is intended as a working aid for lenders and, for that reason, does not reference all the paragraphs contained in this circular. New or deleted material has been bracketed ([]).

1. Introduction

a. This circular contains the credit underwriting policy and procedures established by the Veterans Administration to be followed by all DVB field stations and lenders processing VA-guaranteed loans. It restates and updates policies and procedures previously contained in DVB Circular 26-80-11, [Revised,] dated [September 5, 1986,] and change 1[ ]. The major changes implemented by this circular are the provisions of (1) [a two-tier guideline for residual income. The lower tier will be used when underwriting loan applications in which the loan amount is $69,999 or less. It is recognized that, often, less income is needed to support a lower loan amount. In addition to providing a lower tier of residual income guidelines, all of the figures, including those for loans of $70,000 and above, have been updated based on the most recent data supplied in the "Consumer Expenditure Survey" published by the Department of Labor, Bureau of Labor Statistics,] and (2) [a clarification on the use of depreciation, rental income, and compensating factors when underwriting VA-guaranteed loans.] All criteria set forth are equally applicable to loans for the purchase of manufactured homes and/or manufactured home lots and for loans submitted on either the prior-approval or automatic basis.

b. The provisions of this circular apply to prior-approval loans received in the station on or after [February 1, 1988,] and automatic loans processed by lenders on or after [February 1, 1988.] For prior-approval loans, field station personnel should recognize that lenders may have performed initial processing using the previously existing standards.

c. Statutory credit criteria applicable to the Loan Guaranty program are specified in 38 U.S.C. 1810 which provides that a loan may not be made or guaranteed by the Veterans Administration unless the veteran is a satisfactory credit risk, and the contemplated terms of payment required in any mortgage to be given in part payment of the purchase price or the construction cost bear a proper relation to the veteran's present and anticipated income and expenses.

d. In making a credit determination for a VA-guaranteed loan, it should be borne in mind that a veteran's benefit is involved. The law intends that the veteran have this benefit provided that the requirements of the law are met. However, it serves no purpose to approve or make a loan to a veteran who will be unable to meet the repayment terms or is not a satisfactory credit risk. Such an approval would be, in fact, a disservice since it could well result in the veteran losing the home, a debt being owed by the veteran to the U.S. Government, and an adverse effect on the veteran's credit standing.

2. Loan Analysis. VA Form 26-6393, Loan Analysis, is the form used to analyze an applicant's income and credit acceptability for a VA loan. Attached as exhibit A is a copy of that form [. It is recommended that lenders use this form as a guide when underwriting VA loans.] The following outlines VA credit standards in accordance with the format of VA's loan analysis sheet.

a. Section A - Loan Data. This section provides for showing essential data concerning the downpayment and amount of the proposed loan. In giving consideration to the amount of the downpayment, it should be understood that, while it is an influencing factor, the fact that a sizable downpayment will be made does not of itself qualify a loan if the borrower does not have the ability to meet the monthly payments on the loan or if the borrower is found to be an unsatisfactory credit risk. In considering the amount and duration of the loan, it may be found that, while the borrower cannot qualify for the amount sought from an income standpoint, he or she might qualify for a smaller amount or for the amount requested if the term of the loan were for a longer period.

b. Section B - Borrower's Personal and Financial Status. The number and ages of dependents have an important bearing on whether income after deduction of fixed charges is sufficient to support the family. Type and duration of employment of both the borrower and spouse are important as an indication of stability of their employment. The amount of liquid assets owned by the borrower or spouse, or both, is an important factor in determining that they have sufficient funds to close the loan, as well as being significant in analyzing the overall qualifications for the loan. (It is imperative that adequate cash assets from the veteran's own resources are verified to allow the payment of any difference between the sales price of the property and the loan amount, in addition to that necessary to cover closing costs, if the sales price exceeds the reasonable value established by VA (38 CFR 36.4336(a)(3)). Verifications must be no more than 90 days old to be considered valid. For loans closed on the automatic basis, this requirement will be considered satisfied if the date of the deposit verification is within 90 days of the date of the veteran's application to the lender. Current monthly rental or other housing expense is an important consideration when compared to that to be undertaken in connection with the contemplated housing purchase.

c. Section C - Estimated Monthly Shelter Expenses. It is important that the expenses shown in items 16 through 21 be estimated accurately based on property location and type of house; e.g., old or new, large or small, rather than using or applying a "rule of thumb" to all properties alike. Maintenance and utility amounts for various types of property should be realistically estimated. Local utility companies should be consulted for current rates. The age and type of construction of a house may well affect these expenses. In the case of condominiums or houses in a PUD (planned unit development), enter in item 21 the monthly amount of maintenance assessment payable to a homeowners association. If the amount currently assessed is less than the maximum provided in the covenants or master deed, and it appears likely that the amount will be insufficient for operation of the condominium or PUD, the amount entered in item 21 will be the maximum the veteran could be charged. If it is expected that real estate taxes will be raised, or if any special assessments are expected, the increased or additional amounts should be used. In special flood hazard areas, include the premium for any required flood insurance in item 17.

d. Section D - Debts and Obligations

(1) Long-Term v. Short-Term Debts. All known debts and obligations including any alimony and/or child support payments of the borrower and spouse will be shown in this section. To aid in identifying significant liabilities, place a check (✓) opposite any obligation to be deducted from the total income (item 40) in determining ability to meet the mortgage payments. The accounts so checked will generally be those of a relatively long term; i.e., 6 months or over. Other accounts for terms of less than 6 months must, of course, be considered in determining ability to meet family expenses. Certainly any account with less than 6 months' duration which requires payments so large as to cause a severe impact on the family's resources for any period of time must be considered in the loan analysis. For example, monthly payments of $100 on an auto loan with a remaining balance of $500 would be included in those obligations to be deducted (item 41) from the total income (item 40), regardless of the fact that the account can be expected to pay out in 5 months. It is clear that the applicant will, in this case, continue to carry the burden of those $100 payments for the first, most critical, months of the home loan. Similarly, when the credit information shows open accounts of several years' duration which are clearly of a revolving or open-end type, the regular monthly payment for such accounts should be considered as a long-term obligation to be deducted in item 41.

(2) Requirements for Verification. If the credit investigation reveals debts or obligations of a material nature which were not divulged by the applicant, lenders must be certain to obtain clarification as to the status of such debts from the borrower. A proper analysis is obviously not possible unless there is total correlation between the obligations claimed by the borrower and those revealed by a credit report or deposit verification. Conversely, significant debts and obligations reported by the borrower must be rated. If the credit report fails to provide necessary information on such accounts, lenders will be expected to obtain their own verifications of those debts directly from the creditors. Credit reports and verifications must be no more than 90 days old to be considered valid. For loans closed automatically, this requirement will be considered satisfied if the date of the credit report or verification is within 90 days of the date of the veteran's application to the lender. Of major significance are the applicant's rental history and outstanding or recently retired mortgages, if any, and lenders should be sure ratings on such accounts are obtained. A determination is necessary as to whether alimony and/or child support payments are required. Verification of the amount of such obligations should be obtained, although documentation concerning an applicant's divorce should not be obtained automatically unless it is necessary to verify the amount of any alimony or child support liability indicated by the applicant. If in the routine course of processing the loan application, however, direct evidence is received (e.g., from the credit report) that an obligation to pay alimony or child support exists (as opposed to mere evidence that the veteran was previously divorced), the discrepancy between the loan application and credit report can and should be fully resolved in the same manner as any other such discrepancy would be handled.

(3) Job-Related Expense. Known job-related expense is shown in item 30. This entry will include costs for any dependent care, union dues, group hospitalization insurance, significant commuting costs, etc. When a family's circumstances are such that dependent care arrangements would probably be necessary, it is important to determine the cost of such services in order to arrive at an accurate total of deductions.

e. Section E - Monthly Income and Deductions

(1) Verification. Income of the borrower and spouse which is derived from employment and which is considered in determining the family's ability to meet the mortgage payments, payments on debts and other obligations, and other expenses, must be verified. If the spouse is employed and will be contractually obligated on the loan, the combined income of both the veteran and spouse is considered when the income of the veteran alone is not sufficient to qualify him or her for the amount of the loan sought. (In other than community property States, if the spouse will not be contractually obligated on the loan, Regulation B, promulgated by the Federal Reserve Board pursuant to the Equal Credit Opportunity Act prohibits, as of June 30, 1976, any request for, or consideration of information concerning the spouse (including income, employment, assets, or liabilities), except that if the applicant is relying on alimony, child support, or maintenance payments from a spouse or former spouse as a basis for repayment of the loan, information concerning such spouse or former spouse may be requested and considered (see par. 2e(3)). In community property States, information concerning a spouse may continue to be requested and considered in the same manner as that for the applicant.) The standards applied to income of the veteran are also applicable to that of the spouse. There can be no discounting of income on account of sex, marital status, or any other basis prohibited by the Equal Credit Opportunity Act. Income claimed by an applicant that is not or cannot be verified cannot be given consideration when analyzing the loan. If the veteran or spouse has been employed by a present employer for less than 2 years, verification of prior employment covering a total of 2 years must be obtained unless it consisted of active military duty. Employment verifications must be no more than 90 days old to be considered valid. For loans closed automatically, this requirement will be considered satisfied if the date of the employment verification is within 90 days of the date of the veteran's application to the lender.

(2) Income Reliability. Income received by the borrower and spouse is to be shown in items 32, 38, and 39 of this section only if it can be concluded that the income will continue during the foreseeable future and thus should be properly considered in determining ability to meet the mortgage payments. There can be no discounting of income solely because it is derived from an annuity, pension or other retirement benefit, or from part-time employment. However, unless income from overtime work and part-time or second jobs can be accorded a reasonable likelihood that it is continuous and will continue in the foreseeable future, such income will not be shown in item 32. The hours of duty and other work conditions of the applicant's primary job, and the period of time in which the applicant was employed under such arrangement must be such as to permit a clear

conclusion as to a good probability that such employment can and will continue. Income from overtime work and part-time jobs not eligible for inclusion in item 32, may, if properly verified, be used to offset the payments due on debts and obligations of a relatively short term. Such income is described in the "Remarks" section. The amount of any pension or compensation and other income such as dividends from stocks, interest from bonds, savings accounts, or other deposits, rents, royalties, etc., will be reflected in item 39 if it is reasonable to conclude that such income will continue in the foreseeable future. Otherwise, it may be used only to offset short-term debts, as above. Certain military allowances, as to which likely duration cannot be determined, will also be used only to offset short-term obligations. Such allowances are: pro-pay, flight or hazard pay, and overseas or combat pay, all of which are subject to periodic review and/or testing of the recipient to ascertain whether eligibility for such pay will continue. Only if it can be shown that such pay has continued for a prolonged period and can be expected to continue because of the nature of the recipient's assigned duties, will such income be considered in item 32. For instance, flight pay verified for a pilot can be regarded as probably continuous and thus should be added to the base pay shown in item 32. Income derived from service in the reserves or National Guard may be shown in item 39 if the applicant has served in such capacity for a period of time sufficient to evidence good probability that such income will continue. The total period of active and reserve service may be helpful in this regard. Otherwise, such income may be used to offset short-term debts. There are a number of additional income sources whose contingent nature precludes their being considered as available for repayment of a long-term mortgage obligation. Temporary income items such as VA educational allowances and unemployment compensation do not represent stable and reliable income and will not be taken into consideration in determining the ability of the veteran to meet the income requirement of the governing law. As required by the Equal Opportunity Act Amendments of 1976, Public Law 94-239, income from public assistance programs is used to qualify a loan if it can be determined that the income will probably continue for a substantial fraction of the term of the loan; i.e., one-third or more. For instance, aid to dependent children being received for a 5-year old child that will continue until the child achieves majority would be used to qualify for a 30-year loan.

(3) Alimony, Child Support, Maintenance Payments. If an applicant chooses to reveal income from alimony, child support, or maintenance payments (after first having been informed that any such disclosure is voluntary pursuant to the Federal Reserve Board's Regulation B), such payments are considered as income to the extent that the payments are likely to be consistently made. Factors to be considered in determining the likelihood of consistent payments include, but are not limited to: Whether the payments are received pursuant to a written agreement or court decree; the length of time the payments have been received; the regularity of receipt; the availability of procedures to compel payment; and the creditworthiness of the payor, including the credit history of the payor when available under the Fair Credit Reporting Act or other applicable laws. However, the Fair Credit Reporting Act (15 U.S.C. 1681b) limits the permissible purposes for which credit reports may be ordered, in the absence of written

instructions of the consumer to whom the report relates, to business transactions involving the subject of the credit report or extensions of credit to the subject of the credit report.

(4) Military Quarters Allowance. With respect to off-base housing (quarters) allowances for service personnel on active duty, it is the policy of the DoD (Department of Defense) to utilize available on-base housing when possible. In order for a quarters allowance to be considered as income in the loan analysis, it is necessary that the applicant furnish written authorization from his or her commanding officer for off-base housing. This authorization should verify that quarters will not be made available and that the individual should make permanent arrangements for nonmilitary housing. DD Form 1747, Status of Housing Availability, is used by the Family Housing Office to advise personnel regarding family housing. Unless conditions of item e or f of DD Form 1747 apply, the applicant's quarters allowance cannot be considered. Of course, if the applicant's income less quarters allowance is sufficient, there is no need for assurance that the applicant has permission to occupy nonmilitary housing provided that a determination can be made that the occupancy requirements of the law will be met. Also, authorization to obtain off-base housing will not be required when certain duty assignments would clearly qualify service personnel with families for quarters allowance. For instance, off-base housing authorizations need not be obtained for service personnel stationed overseas who are not accompanied by their families, recruiters on detached duty, or military personnel stationed in areas where no on-base housing exists. In any case in which no off-base housing authorization is obtained, an explanation of the circumstances justifying its omission must be included with the loan application except when it has been established by the station of jurisdiction that the waiting lists for off-base housing are so long that it is improbable that individuals desiring to purchase off-base housing would be precluded from doing so in the foreseeable future. If stations make such a determination, a release shall be issued to inform lenders.

(5) Commissions. When all or a major portion of the veteran's income is derived from commissions, it will be necessary to establish the stability of such income if it is to be considered in the loan analysis for the repayment of the mortgage debt and/or short-term obligations. In order to assess the value of such income, lenders should obtain written verification of the actual amount of commissions paid to date, the basis for the payment of such commissions, and when commissions are paid; i.e., monthly, quarterly, semiannually, or annually. The length of the veteran's employment in this type of occupation is also an important factor in the assessment of the stability of the income. If the veteran has been employed for a relatively short time, the income should not normally be considered stable unless the product or service was the same or closely related to the product or service sold in an immediate prior position.

(6) Self-Employment. When a self-employed applicant has been in business a relatively short period of time (i.e., less than 2 years), sufficient information must be obtained to ascertain that the applicant has the training, experience and other qualifications necessary to be successful in the enterprise. For any self-employed

person, verification of the amount of income is accomplished by obtaining a profit and loss statement for the prior fiscal year (12-month accounting cycle), plus the period year to date since end of the last fiscal year (or for whatever shorter period records may be available), and a current balance sheet showing all assets and liabilities. The profit and loss statement and balance sheet will be prepared by an accountant based on the financial records. In some cases the nature of the business or the content of the financial statement may necessitate an independent audit certified as accurate by the accountant. Depending on the situation, this data may be on the veteran and/or the business. When it is otherwise not possible to determine a self-employed applicant's qualification from an income standpoint, the applicant may wish to voluntarily offer to submit copies of complete income tax returns, including all schedules for the past 2 years, or for whatever additional period is deemed necessary to properly demonstrate a satisfactory earnings record. [Depreciation claimed as a deduction on the tax return or financial record of the business may be added in as net income on line 39 of VA Form 26-6393.] If the business is a corporation or partnership, a list of all stockholders or partners showing the interest each holds in the business will be required. Some cases may justify a written credit report on the business as well as the applicant. When the business is of an unusual type and it is difficult to determine the probability of its continued operation, explanations as to the function and purpose of the business may be needed from the applicant and/or any other qualified party with the acknowledged expertise to express a valid opinion.

(7) Recently Discharged Veterans. Loan applications received from recently discharged veterans who have little or no employment experience other than their military occupation and from veterans seeking VA-guaranteed loans who have retired after 20 years of active military duty require special attention. The retirement income of the latter veterans in many cases is not sufficient to meet the statutory income requirements for the loan amount sought. Many have obtained full-time employment and have been employed in their new jobs for a very short time.

(a) It is essential in determining whether veterans in these categories qualify from the income standpoint for the amount of the loan sought, that the facts in respect to their present employment and retirement income be fully developed, and that each case be considered on its individual merits.

(b) In most cases the veteran's current income or current income plus his or her retirement income is sufficient. The problem lies in determining whether it can be properly concluded that such income level will continue for the foreseeable future. If the veteran's employment status is that of a trainee or apprentice, this will, of course, be a factor. In cases of the self-employed, the question to be resolved is whether there are reasonable prospects that the business enterprise will be successful and produce the required income. Unless a favorable conclusion can be made, the income from such source should not be considered in the loan analysis.

(c) If a recently discharged veteran has no prior employment history and the veteran's verification of employment shows he or she has not been on the job a sufficient time in which to become established, consideration should be given to the duties the veteran performed in the military service. When it can be determined that the duties a veteran performed in the service are similar or are in direct relation to the duties of the applicant's present position, such duties may be construed as adding weight to his or her present employment experience and the income from the veteran's present employment thus may be considered available for qualifying the loan, notwithstanding the fact that the applicant has been on his or her present job only a short time. This same principle may be applied to veterans recently retired from the service. In addition, when the veteran's income from retirement, in relation to the total of the estimated shelter expense, long-term debts and amount available for family support, is such that only minimal income from employment is necessary to qualify from the income standpoint, it would be proper to resolve the doubt in favor of the veteran. It would be erroneous, however, to give consideration to a veteran's income from employment for a short duration in a job requiring skills for which the applicant has had no training or experience.

(d) To illustrate the foregoing, it would be proper to use short-term employment income in qualifying a veteran who had experience as an airplane mechanic in the military service and the individual's employment after discharge or retirement from the service is in the same or allied fields; e.g., auto mechanic or machinist. This presumes, however, that the verification of employment included a statement that the veteran was performing the duties of the job satisfactorily, the possibility of continued employment was favorable and that the loan application is eligible in all other respects. An example of nonqualifying experience is that of a veteran who was an Air Force pilot and has been employed in insurance sales on commission for a short time. Most cases, of course, fall somewhere between those extremes. It is for this reason that the facts of each case must be fully developed prior to closing the loan automatically or submitting the case to VA for prior approval.

(8) Employment of Short Duration. The provisions of subparagraph (7) above are similarly applicable to applicants whose employment is of short duration. Such cases will entail careful consideration of the employer's confirmation of employment, probability of permanency, past employment record, the applicant's qualifications for the position, and previous training, including that received in the military service. In the event that such considerations do not enable a determination that the income from the veteran's current position has a reasonable likelihood of continuance, such income should not be considered in the analysis. Applications received from persons employed in the building trades, or in other occupations affected by climatic conditions, should be supported by documentation evidencing the applicant's total earnings to date and covering a period of not less than 1 year. If the applicant works out of a union, evidence of the previous year's earnings should be obtained together with a verification of employment from the current employer.

(9) Rental Income. When the loan pertains to a structure with more than a one-family dwelling unit, the prospective rental income

will not be considered unless (a) the veteran can demonstrate a reasonable likelihood of success as a landlord, and (b) sufficient cash reserves are verified to enable the veteran to carry the mortgage loan payments (principal, interest, taxes, and insurance) without assistance from the rental income for a period of at least 6 months. The determination of the veteran's likelihood of success as a landlord will be based on documentation of any prior experience in managing rental units, or other background involving both property maintenance and rental or other collection activities. The amount of rental income to be used in the loan analysis will be based on the prior rental history of the units as verified by the seller's financial records (e.g., prior years' tax returns) for existing structures or, for proposed construction, the appraiser's opinion of the property's fair monthly rental. Adjustments will be applied to reduce estimated gross rental income by proper allowances for operating expenses and vacancy losses. [Proposed rental of a veteran's existing property may be used to offset the mortgage payment on that property, provided there is no indication that the property will be difficult to rent. If available, a copy of the rental agreement should be obtained. It is the responsibility of the loan underwriter to be aware of the condition of the local rental market. For instance, in areas where the rental market is very strong the absence of a lease should not automatically prohibit the offset of the mortgage by the proposed rental income. If income from rental property will be used to qualify for the new loan, then the documentation required of a self-employed applicant should be obtained together with evidence of cash reserves equaling 3 months PITI on the rental property. As for any self-employed earnings (see par. 2e(6)) depreciation claimed may be added back in as income on line 39 of VA Form 26-6393. In the case of a veteran who has no experience as a landlord, it is unlikely that the income from a rental property may be used to qualify for the new loan.]

(10) Taxes and Other Deductions. Deductions to be applied for Federal income taxes and Social Security may be obtained from the "Employer's Tax Guide" (Circular E) issued by the IRS (Internal Revenue Service). (For veterans receiving an MCC (mortgage credit certificate), see subpar. (11) below.) Any State or local taxes should be estimated or obtained from charts similar to those provided by IRS which may be available in those States with withholding taxes. A determination of the amount paid or withheld for retirement purposes should be made and entered in item 35. In determining whether a veteran-applicant meets the income criteria for a loan, some consideration may be given to the potential tax benefits the veteran will realize if the loan is approved. This can be done by using the instructions and worksheet portion of IRS Form W-4, Employee's Withholding Allowance Certificate, to compute the total number of permissible withholding allowances. That number can then be used when referring to IRS Circular E and any appropriate similar State withholding charts to arrive at the amount of Federal and State income tax to be entered in items 33 and 34 of VA Form 26-6393.

(11) Mortgage Credit Certificates

(a) The Internal Revenue Code, as amended by the Tax Reform Act of 1984, allows States and other political subdivisions to trade in all or part of their authority to issue mortgage revenue bonds for authority to issue MCC's. Veterans who are recipients of MCC's may realize a significant reduction in their income tax liability by receiving a Federal tax credit for a percentage of their mortgage interest payment on debt incurred on or after January 1, 1985.

(b) Lenders must provide a copy of the MCC to VA with the home loan application. The MCC will specify the rate of credit allowed and the amount of certified indebtedness; i.e., the indebtedness incurred by the veteran to acquire a principal residence or as a qualified home improvement or rehabilitation loan.

(c) For credit underwriting purposes, field stations will treat the amount of tax credit allowed to a veteran under an MCC as a reduction in the monthly income tax to be entered in item 33. For example, a veteran having a $600 monthly interest payment and an MCC providing a 30-percent tax credit would receive a $180 (30% x $600) tax credit each month. However, because the annual tax credit, which amounts to $2,160 (12 x $180), exceeds $2,000 and is based on a 30-percent credit rate, the maximum tax credit the veteran can receive is limited to $2,000 per year or $167 per month ($2,000 ÷ 12). As a consequence of the tax credit, the interest on which a deduction can be taken will be reduced by the amount of the tax credit to $433 ($600 - $167). This reduction should also be reflected in item 33.

(d) For underwriting purposes, the amount of the tax credit is limited to the amount of the veteran's maximum tax liability. If, in the above example, the veteran's tax liability for the year were only $1,500, the monthly tax credit would be limited to $125 ($1,500 ÷ 12).

(12) Balance for Family Support (Residual Income)

(a) Based on data supplied in the CES (Consumer Expenditure Survey) published by the Department of Labor's Bureau of Labor Statistics, regional minimum balances for family support (residual income) have been developed [for loan amounts up to $69,999 and for loan amounts of $70,000 and above]. The most recent report, USDL [87-399], was used [which] provides data [ ] on family expenditures for standard items such as food, health care, apparel and gasoline. The data provided for shelter expense, vehicle purchase and retirement contributions were not used since, when figuring an applicant's residual income, these are shown as separate items.

(b) After consultation with the Bureau of Labor Statistics and recognizing the fact that CES expenses are averages not minimums and include some high-income survey respondents, 75 percent of the amount for a family of four was used as a base [for loan amounts of $70,000 and above and 65 percent for loan amounts of $69,999 and below]. Different family compositions are recognized by comparing totals of the utilized expenditure items for each family size [ ]. The base figure was then adjusted by multiplying by [a] regional adjustment factor [.] Exhibit B is a list of the States in each region.

(c) Based on the computation detailed above, regional minimum residual income figures were derived. Lenders underwriting VA-guaranteed loans on the automatic basis and stations must use these figures as a guide when underwriting a loan. It is recognized that the purchase price of the property may affect family expenditure levels in individual cases. While not considered in establishing the minimum residual incomes, this factor may be given consideration in the final determination in individual loan analyses. For example, a family purchasing in a higher-priced neighborhood may feel a need to incur higher-than-average expenses to support a lifestyle comparable to that in their environment, whereas a substantially lower-priced home purchase may not compel such expenditures. It should also be clearly understood from this information that no single factor is a final determinant in any applicant's qualification for a VA-guaranteed loan. Once the balance for family support has been established, other important factors must be examined. One such consideration is the amount being paid for rental or housing expenses. If the shelter expense shown in item 22 is materially in excess of what is currently being paid, the case may require close scrutiny. In such cases, consideration should be given to (1) the ability of the borrower and spouse to accumulate liquid assets; i.e., cash and bonds, and (2) the amount of debts incurred while paying a lesser amount for shelter. For example, if an application shows little or no capital reserves and excessive obligations, it is not reasonable to conclude that a substantial increase in shelter expenses can be absorbed. Another factor of prime importance is the applicant's manner of meeting his or her obligations. A poor credit history alone is a basis for disapproving a loan, as is an obviously inadequate balance for family support. When one or the other is marginal, however, the remaining aspect must be closely examined to assure that the loan applied for will not exceed the applicant's ability or capacity to repay. Therefore, it is important to remember that the figures provided below are to be used as a guide and should not automatically trigger approval or rejection of a loan.

[TABLE OF RESIDUAL INCOMES BY REGION
(FOR LOAN AMOUNTS OF $69,999 AND BELOW)

*Family Size	Northeast	Midwest	South	West
1	$348	$340	$340	$379
2	583	570	570	635
3	702	687	687	765
4	791	773	773	861
5	821	803	803	894

*For families with more than five members, add $70 for each additional member up to a family of seven.]

TABLE OF RESIDUAL INCOMES BY REGION
[FOR LOAN AMOUNTS OF $70,000 AND ABOVE]

*Family Size	Northeast	Midwest	South	West
1	$[401	$393	$393	$437
2	673	658	658	733
3	810	792	792	882
4	913	893	893	995
5	946	925	925	1031]

*For families with more than five members, add $75 for each additional member up to a family of seven. [ ]

[For loan applications in which either the borrower or the spouse is an active-duty serviceperson, the residual income figures will be reduced by a minimum of 5 percent if there is a clear indication that the borrower or spouse will continue to receive the benefits resulting from the use of facilities on a nearby military base. (These reductions applies to both of the above tables.)] THIS REDUCTION MAY ALSO BE APPLIED TO RETIREL MILITARY APPLICANTS WHEN THE PROPERTY IS LOCATED REASONABLY NEAR TO A MILITARY BASE OR INSTALLATION.

(13) Income Ratio. In addition to the residual income, a ratio based on total monthly debt payments (housing expense, installment debts, etc.) to gross monthly income will be considered. The use of a ratio is being implemented to provide greater scrutiny of high-risk loans. Like the residual income, the ratio will be used as a guide when making the approve/disapprove decision on a loan. The fact that a high ratio exists is not necessarily reason enough to reject a loan, but must be considered with all other factors when underwriting a loan. The ratio will be determined by taking the sum of PITI, homeowners and other assessments (items 15, 16, 17, 18 and 21) and obligations to be deducted from income (item 41) divided by the total of gross salary or earnings (item 32) and other compensation or net income (item 39). The ratio should be rounded to the nearest two digits; i.e., 35.6 percent would be rounded to 36 percent. If the ratio is greater than 41 percent, [(unless it is larger due solely to the existence of tax-free income which should be noted in the loan file)] lenders processing loans on the automatic basis must provide a statement justifying the reasons for approval, signed by the underwriter's supervisor. [If the ratio is greater than 41 percent and the residual income exceeds the guidelines by at least 20 percent, the second level review and statement of justification will not be required.] The statement must not be perfunctory, but should list the compensating factors justifying the approval of the individual loan. Until the forms are revised, the ratio will be indicated in item 47 of VA Form 26-6393, (for loans not requiring VA Form 26-6393; i.e., obviously approvable or rejected, only the items necessary for calculations of the ratio need be completed) or for automatic loans in item 9 of VA Form 26-1820, Report of Home Loan Processed on Automatic Basis, or item 10c of VA Form 26-8149, Report of Automatic Manufactured Home and/or Lot Loan, after the dollar amount of the loan.

(14) Credit. The conclusion reached as to whether or not the

borrower and spouse are satisfactory credit risks is indicated in item 45 of VA Form 26-6393 and must be based on a careful analysis of the available credit data. Effective October 28, 1975, Regulation B promulgated by the Federal Reserve Board pursuant to the Equal Credit Opportunity Act required that lenders include, in evaluating credit-worthiness on a veteran's request, the credit history, when available, of any account reported in the name of the veteran's spouse or former spouse which the veteran can demonstrate reflects accurately the veteran's willingness or ability to repay.

(a) Adverse Data. If the analysis develops any derogatory credit information and, despite such facts, it is determined that the borrower and spouse are satisfactory credit risks, the basis for the decision will be explained in the "Remarks" section. If a borrower and spouse have debts outstanding which have not been paid timely, or which they have refused to pay, the fact that the outstanding debts are paid after the acceptability of the credit is questioned does not of course, alter the fact that the record for paying debts has been unsatisfactory. With respect to unpaid debts, lenders may take into consideration a veteran's claim of bona fide or legal defenses. This is not applicable when the debt has been reduced to judgment.

(b) Prior VA Loans. When the veteran's certificate of eligibility or loan application indicates use of VA-guaranteed loan entitlement in connection with a prior loan, the lender to which the veteran is currently applying for an additional loan is on notice that VA-loan experience with the applicant is an element to be considered. Such experience, especially if it is recent, may be so unfavorable that further credit is not warranted. Since credit experience with veterans' guaranteed or insured loans may not be reported by lenders to credit agencies, credit reports obtained in connection with the evaluation of a subsequent loan may be deficient to that extent. Therefore, lenders processing loans on an automatic basis should develop evidence through the originator or holder of the previous loan(s) on the status and experience of such loan(s). If information cannot be obtained, lenders may contact the VA regional office through which the loan(s) was obtained. Failure to do so will subject the lender to the risk of a possible determination by the VA that when all the facts and circumstances that were readily available are considered, the conclusion of the lender relative to compliance with 38 U.S.C. 1810(b)(3) ought not be recognized as reasonable and proper and that the loan should be considered ineligible for guaranty.

(c) Bankruptcy. When the credit information shows that the borrower or spouse has been adjudicated bankrupt under the "straight" liquidation and discharge provisions of the bankruptcy law, this would not in itself disqualify the loan. However, in such cases it is necessary to develop complete information as to the facts and circumstances concerning the bankruptcy. Generally speaking, when the borrower or spouse, as the case may be, has been regularly employed (not self-employed) and has been discharged in bankruptcy within the last 2 or 3 years, it probably would not be possible to determine that the borrower or spouse is a satisfactory credit risk unless both of the following requirements are satisfied:

1. The borrower or spouse has obtained consumer items on credit

subsequent to the bankruptcy and has met the payments on these obligations in a satisfactory manner over a continued period, and

2. The bankruptcy was caused by circumstances beyond control (e.g., unemployment, prolonged strikes, medical bills not covered by insurance) of the borrower or spouse. The circumstances alleged must be verified. If a borrower or spouse is self-employed, has been adjudicated bankrupt, and subsequently obtains a permanent position, a finding as to satisfactory credit risk may be made provided there is no derogatory credit information prior to self-employment, there is no evidence of derogatory credit information subsequent to the bankruptcy, and the failure of the business was not due to misconduct. A bankruptcy discharged more than 5 years ago may be disregarded. A bankruptcy discharged between 3 and 5 years ago may be given some consideration, depending upon the circumstances of the bankruptcy, and submission of evidence that the veteran has been paying his or her obligations in a timely manner.

(d) Wage Earner's Petition - Chapter 13 of Bankruptcy Law. A wage earner's petition under chapter 13 of the Bankruptcy Law filed by borrower or spouse is indicative of an effort to pay their creditors. Some plans may provide for full payment of debts while others arrange for payment of scaled down debts. Regular payments are made to a court-appointed trustee over a 2- to 3-year period (or up to 5 years in some cases). When the borrowers have made all payments in a satisfactory manner, they may be considered as having reestablished satisfactory credit. When they apply for a home loan before completion of the payout period, favorable consideration may nevertheless be given if at least three-fourths of the payments have been made satisfactorily and the Trustee and Bankruptcy Judge (Referee) approve of the new credit.

(e) Absence of Credit History. The fact that recently discharged veterans may have had no opportunity to develop a credit history will not preclude a determination of satisfactory credit. Similarly, other loan applicants may not have established credit histories as a result of a preference for purchasing consumer items with cash rather than credit. There are also cases in which individuals may be genuinely wary of acquiring new obligations following bankruptcy, consumer credit counseling (debt proration), or other disruptive credit occurrence. The absence of the credit history in these cases will not generally be viewed as an adverse factor in credit underwriting. However, before a favorable decision is made for cases involving bankruptcies or other derogatory credit factors, efforts should be made to develop evidence of timely payment of noninstallment debts such as rent and utilities. It is anticipated that this special consideration in the absence of a credit history following bankruptcy would be the rare case and generally confined to bankruptcies which occurred over 3 years ago.

[(15) Compensating Factors. Every loan applicant should be judged on an individual basis. In addition to the factors discussed previously, there are compensating factors that may impact on the approval or disapproval of a loan. These factors become especially important when reviewing loans that are marginal with regard to residual income or the debt-to-income ratio. The following are examples of compensating factors:

(a) Excellent long-term credit

(b) Conservative use of consumer credit

(c) Minimal consumer debt

(d) Long-term employment

(e) Significant liquid assets

(f) Downpayment or the existence of equity in refinancing loans

(g) Little or no increase in shelter expense

(h) Military benefits

(i) Satisfactory homeownership experience

(j) High residual income

(k) Low debt-to-income ratio

This list is not intended to be all inclusive and the items are not in any priority order. It is important that loan underwriters understand that residual income and ratio guidelines provided were never intended to be absolute determinents in deciding whether a VA loan should be approved, but must be used with discretion in conjunction with factors like those listed above.]

3. Lender Responsibility

a. Lenders are responsible for developing all credit information; i.e., for obtaining verifications of employment and deposit, credit reports, and for the accuracy of the information contained in the loan application. Verifications of employment and deposit and requests for credit reports and/or credit information must be initiated and received by the lender directly. If the real estate broker (or agent) is to perform these functions, acting in the capacity of a duly authorized agent for the lender in a particular case, the report(s) must go directly to the lender and this fact must be disclosed by appropriately completing the required certification on the home loan application or report.

b. Lenders originating loans on an automatic basis are responsible for determining and certifying to the VA that the loan meets all applicable statutory and regulatory requirements. When VA Form 26-1820 is submitted to the VA by a lender authorized to process such loans, the lender affirmatively certifies that the loan was made in full compliance with the law and with Loan Guaranty regulations. This certification is considered to include, but is not limited to, the following:

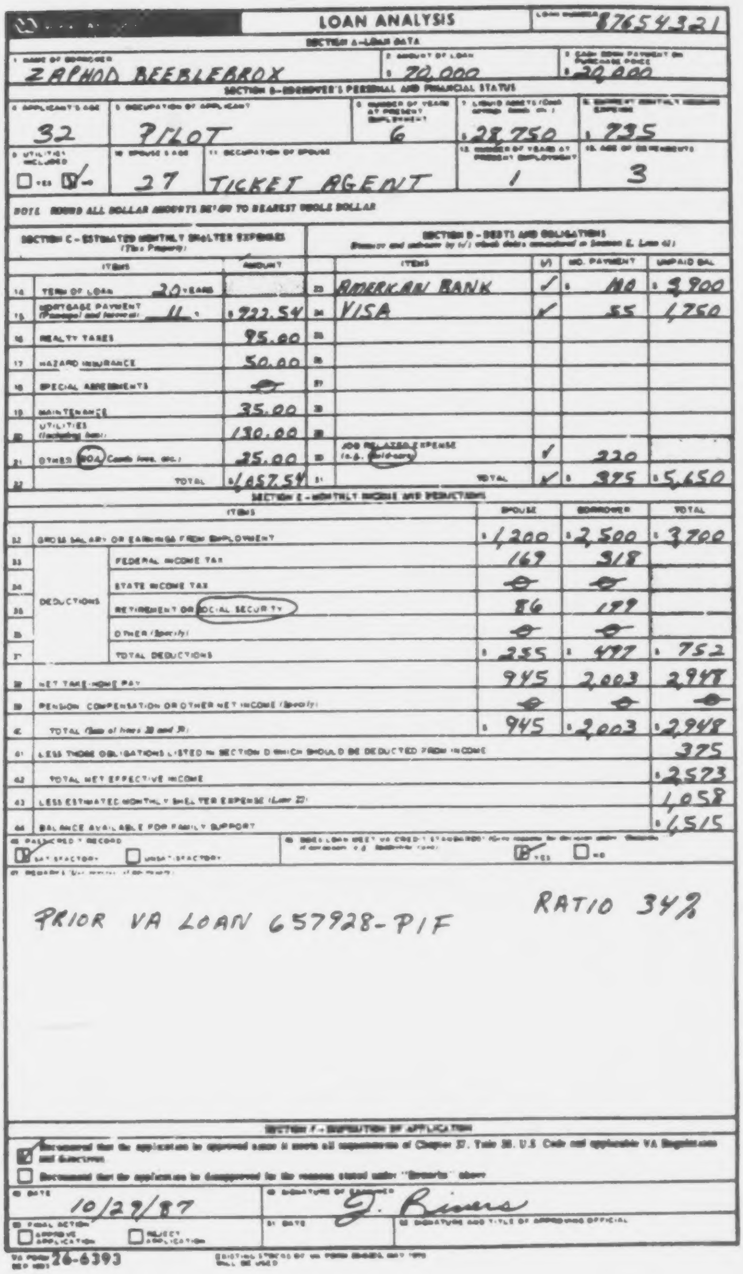
(1) The veteran is a satisfactory credit risk;

(2) The terms of payment required by the loan contract bear a proper relation to the veteran's present and anticipated income and expenses; and

(3) The lending institution making the certification is in fact the lender and not merely acting as the closing facility or instrumentality for a lender not authorized to process loans on an automatic basis; thus, in effect, circumventing the prior-approval requirement applicable to loans to be originated by a lender not authorized to process loans on an automatic basis.

c. As indicated in paragraph 1c, 38 U.S.C. 1810 requires a determination that the financial status of the veteran, with respect to his or her present and anticipated income and expenses, warrants a reasonable conclusion that the loan may be repaid from the veteran's income and that the veteran is a satisfactory credit risk. The purpose of the law is defeated, and both the VA and the lender are negligent in their responsibilities, if the veteran is allowed to undertake an obligation which is beyond his or her ability to discharge. Such action may ultimately result in foreclosure and distress for the veteran and expense for the Government and lender. The uniform and conscientious application of these credit standards is, therefore, of potential benefit to all concerned, and lenders' cooperation in this regard is essential.

Exhibit A



LOAN ANALYSIS

LOAN NUMBER 87654321

SECTION A—LOAN DATA

1. NAME OF BORROWER ZAPHOD BEEBLEBROX	2. AMOUNT OF LOAN $ 70,000	3. CASH DOWN PAYMENT ON PURCHASE PRICE $ 20,000

SECTION B—BORROWER'S PERSONAL AND FINANCIAL STATUS

4. APPLICANT'S AGE 32	5. OCCUPATION OF APPLICANT PILOT	6. NUMBER OF YEARS AT PRESENT EMPLOYMENT 6	7. LIQUID ASSETS (Cash, savings, bonds, etc.) $ 28,750	8. CURRENT MONTHLY HOUSING EXPENSE $ 735
9. UTILITIES INCLUDED ☐ YES ☑ NO	10. SPOUSE'S AGE 27	11. OCCUPATION OF SPOUSE TICKET AGENT	12. NUMBER OF YEARS AT PRESENT EMPLOYMENT 1	13. AGE OF DEPENDENTS 3

NOTE: ROUND ALL DOLLAR AMOUNTS BELOW TO NEAREST WHOLE DOLLAR

SECTION C – ESTIMATED MONTHLY SHELTER EXPENSES (This Property)			SECTION D – DEBTS AND OBLIGATIONS				
	ITEMS	AMOUNT		ITEMS	(✓)	MO. PAYMENT	UNPAID BAL.
14	TERM OF LOAN 20 YEARS		23	AMERICAN BANK	✓	$ 100	$ 3,900
15	MORTGAGE PAYMENT (Principal and Interest) 11 %	$ 922.54	24	VISA	✓	55	1,750
16	REALTY TAXES	95.00	25				
17	HAZARD INSURANCE	50.00	26				
18	SPECIAL ASSESSMENTS	0	27				
19	MAINTENANCE	35.00	28				
20	UTILITIES (Including heat)	130.00	29				
21	OTHER (HOA, Condo fees, etc.)	25.00	30	JOB RELATED EXPENSE (e.g. child care)	✓	220	
22	TOTAL	$ 1,257.54	31	TOTAL	✓	$ 375	$ 5,650

SECTION E – MONTHLY INCOME AND DEDUCTIONS

	ITEMS		SPOUSE	BORROWER	TOTAL
32	GROSS SALARY OR EARNINGS FROM EMPLOYMENT		$ 1,200	$ 2,500	$ 3,700
33	DEDUCTIONS	FEDERAL INCOME TAX	169	318	
34		STATE INCOME TAX	0	0	
35		RETIREMENT OR SOCIAL SECURITY	86	179	
36		OTHER (Specify)	0	0	
37		TOTAL DEDUCTIONS	$ 255	$ 497	$ 752
38	NET TAKE-HOME PAY		945	2,003	2,948
39	PENSION, COMPENSATION OR OTHER NET INCOME (Specify)		0	0	0
40	TOTAL (Sum of lines 38 and 39)		$ 945	$ 2,003	$ 2,948
41	LESS THOSE OBLIGATIONS LISTED IN SECTION D WHICH SHOULD BE DEDUCTED FROM INCOME				375
42	TOTAL NET EFFECTIVE INCOME				$ 2,573
43	LESS ESTIMATED MONTHLY SHELTER EXPENSE (Line 22)				1,058
44	BALANCE AVAILABLE FOR FAMILY SUPPORT				$ 1,515

45. PAST CREDIT RECORD ☑ SATISFACTORY ☐ UNSATISFACTORY	46. DOES LOAN MEET VA CREDIT STANDARDS? [illegible] ☑ YES ☐ NO

47. REMARKS

PRIOR VA LOAN 657928-PIF

RATIO 34%

SECTION F – DISPOSITION OF APPLICATION

☑ Recommend that the application be approved since it meets all requirements of Chapter 37, Title 38, U.S. Code and applicable VA Regulations and directives.

☐ Recommend that the application be disapproved for the reasons stated under "Remarks" above.

48. DATE 10/29/87	49. SIGNATURE OF EXAMINER J. Rivers
50. FINAL ACTION ☐ APPROVE APPLICATION ☐ REJECT APPLICATION	51. DATE 52. SIGNATURE AND TITLE OF APPROVING OFFICIAL

VA FORM 26-6393

[Exhibit B

GEOGRAPHIC REGIONS

Northeast - Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont

Midwest - Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin

South - Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, Virginia and West Virginia

West - Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming

20]

Veterans Benefits Administration
Department of Veterans Affairs
Washington, D.C. 20420

Circular 26-80-11, Revised
Change 3
December 21, 1989

ERRATUM

1. Circular 26-80-11, Revised, Change 3 is corrected as follows:

Page 2: Entry for page 14, paragraph 2e(12)(c): Delete the entire entry and insert the following:

"Page 14, paragraph 2e(12)(c), line 27 (amended by change 2): After 'nearby military base.' insert 'This reduction may also be applied to retired military applicants when the property is located reasonably near to a military base or installation.'"

2. STATION RELEASES. Stations may wish to include a cover memo to assist lenders when issuing releases because the line count in Change 3 and this erratum apply to the circular and will vary slightly for the Extract. Copies of such releases need not be submitted to Central Office.

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WANG OFFICE VERSION SENT 12/21/89

Department of Veterans Benefits
Veterans Administration
Washington, D.C. 20420

DVB Circular 26-87-47

December 22, 1987

TEMPORARY INTEREST RATE BUYDOWN PLANS

1. This circular updates and changes the credit underwriting criteria of temporary interest rate buydowns provided in DVB Circular 26-82-13, and change 1, hereby rescinded. Due to current economic conditions and because regular wage increases are no longer assured, VA's underwriting of loans with temporary buydown plans is being modified.

2. Effective immediately, credit underwriting for loans with buydown plans will be based on the full payment amount except when there are strong indications that the income being used to support the application can reasonably be expected to keep pace with the increases in the monthly mortgage payments. A buydown arrangement will be treated as an additional compensating factor for consideration only when a loan application must be underwritten on the full payment amount. For example, the buydown may be considered to offset a short-term obligation.

3. The following guidelines will be used when a loan application is underwritten on the full payment amount:

a. The terms of the buydown plan will not be limited to specific criteria such as a minimum or maximum number of years for application of the assistance payments. A copy of the buydown agreement will not be required to accompany the loan submission. However, lenders must recognize that it is their responsibility to review and determine the agreement's acceptability; i.e., are the funds likely to be available when needed. Prudent lending practices dictate that the funds must be safely escrowed with a third-party escrow agent beyond the reach of prospective creditors of the builder/seller, lender, and borrower. Lenders must provide veteran-borrowers with a clear, written explanation of the buydown agreement.

b. If a loan application is underwritten on the full payment amount and the residual income balance and/or debt-to-income ratio is marginal, the effect of the buydown plan (offset short-term debt) along with other compensating factors may support approval of the loan. These factors may include, but are not limited to, excellent credit, long-term employment, sizeable cash reserves, or reasonable increase from rent to proposed mortgage payment. In such cases, a statement giving the reasons for approval, signed by the lender's automatic underwriter, must accompany the loan submission. In marginal cases, a copy of the buydown agreement must also be submitted with the loan documents.

c. Station personnel will be responsible for documenting the approval of marginal cases that are submitted prior-approval.

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4. In order for a loan application to be underwritten on the first year's payment amount (bought-down rate), there must be strong indications that the income(s) being used to support the application will increase to cover the scheduled yearly increases in loan payments. For example, routine cost-of-living increases cannot be used for this purpose. On the other hand, increases resulting from confirmed future promotions or wage percentage increases guaranteed by labor contracts (e.g., teachers, auto workers, etc.) may be given favorable consideration. Needless to say, the possibilities are too varied and numerous to specifically address in this circular. It is imperative, therefore, that careful consideration and sound judgment be exercised in determining when this guideline may be applied.

5. The criteria for temporary interest rate buydowns for loans underwritten on the first year's payment are:

a. The assistance payments will run for a minimum of 1 year. Scheduled reductions in the assistance payments must occur annually on the anniversary date of the first mortgage payment. The annual payment increases must be in equal or approximately equal amounts. Alternately, when the subsidy is calculated by setting the veteran's initial payments to a lower interest rate, the reductions in the assistance payments may be accomplished through equal annual increases in that interest rate.

b. The payments will be made directly to the mortgagee or servicer by the escrow agent. In all cases, the funds must be escrowed with an independent third-party escrow agent safely beyond the reach of prospective creditors of the builder/seller, lender, and borrower. A copy of the escrow agreement must accompany the loan submission.

c. The escrowed funds may not revert to the builder/seller under any circumstances. If the property is sold subject to or on an assumption of the loan, the escrow must continue to pay out on behalf of the new owner.

d. The borrower's only interest in the funds is to have them applied to payments due under the note. The funds may not be used to pay past due monthly loan payments. In the event of foreclosure or prepayment of the loan in full, the funds must be credited against the veteran's indebtedness.

e. A temporary interest rate buydown may not be considered if the veteran is acquiring the home with a VA-guaranteed graduated payment mortgage.

6. Stations will reproduce paragraphs 1 through 3b, 4 and 5, substituting local release numbers for the circular references in paragraph 1, for distribution to all program participants as soon as possible. Copies of these releases need not be submitted to Central Office.

7. RESCISSIONS

a. DVB Circular 26-82-13 and change 1.

b. DVB Circular 26-86-12 and change 1 (unrelated rescission).

R. J. VOGEL
Chief Benefits Director

Distribution: CO: RPC 2021
SS(26A1) FLD: DVBFS, 1 each (Reproduce and distribute based on RPC 2021)

Department of Veterans Benefits
Veterans Administration
Washington, D.C. 20420

DVB Circular 21-88-1

January 12, 1988

DUTIES AND RESPONSIBILITIES OF PTSD COORDINATORS IN THE REGIONAL OFFICES

1. PURPOSE. This circular specifies the functions of the PTSD coordinator at each regional office. Attached as appendix A is an updated listing of the names and telephone numbers of those coordinators.

2. DUTIES AND RESPONSIBILITIES. The primary function of the PTSD coordinator is to serve as a contact point and liaison for adjudication questions which arise pertaining to cases involving PTSD issues. The coordinator is not empowered to assume any supervisory or management functions currently assigned to other Adjudication Division personnel unless such authority is specifically delegated by the Adjudication Officer. Specific duties and responsibilities of the coordinator include:

a. Thorough familiarity with all DVB guidelines pertaining to PTSD;

b. Responding to inquiries from within and without the Agency concerning adjudication procedures in connection with PTSD claims in general;

c. Answering inquiries from other VA elements pertaining to actions taken or underway on any particular PTSD claim (within the limits of the Privacy Act);

d. Acting as liaison with pertinent personnel at VA medical facilities and outreach centers when there has been a problem in obtaining necessary evidence or records in a specific PTSD case;

e. Advising the Adjudication Officer of any patterns of deficiency or on-going problems encountered during the adjudication of PTSD claims.

3. RESCISSION: DVB Circular 21-86-11.

RJ Vogel
R. J. VOGEL
Chief Benefits Director

Distribution: CO: RPC 2901
FD FLD: RPC 2068, plus DMSFA, 2 each; VBC, 1 each; Vet Centers, 1 each
EX: ASO and AR, 1 each

DVB Circular 21-88-1
Appendix A

January 12, 1988

PTSD COORDINATORS IN DVB REGIONAL OFFICES

State/ Station	Coordinator's Name	FTS Phone Number	Commercial Phone No.
AL, Montgomery	James Laney	534-7224	205-832-7224
AK, Anchorage	Frank Stueve	271-2208	907-271-2208
AZ, Phoenix	Sandy H. Thompson	261-2712	602-241-2712
AR, Little Rock	Fred King	740-5766	501-378-5766
CA, Los Angeles	Meredith Miller	793-7441	213-209-7786
San Diego	M. Catherine Federick	895-5751	619-293-5751
San Francisco	Michael Hoffschneider	454-0202	415-974-0202
CO, Denver	Julie Pacetti	326-2959	303-980-2959
CT, Hartford	Linda Abrams	244-3451	203-722-3451
DE, Wilmington	Alton Smith	487-5407	302-994-2511 Ext. 407
DC, Washington	Auga Butler	275-1445	202-275-1445
FL, St. Petersburg	Tim Ivers	826-3252	813-893-3252
GA, Atlanta	Charles Hames	257-3425	404-347-3425
HI, Honolulu	Larry Galola	546-2125	808-546-2125
ID, Boise	Hal Mulligan	554-1903	208-334-1903
IL, Chicago	Ronald Stigler	353-0919	312-353-0919
IN, Indianapolis	David Espling	331-7860	317-269-7860
IA, Des Moines	Mary Young	862-4242	515-284-4242
KS, Wichita	Perry Borth	752-6606	316-269-6606
KY, Louisville	Gary Jones	352-6214	502-582-6214
LA, New Orleans	Larry Sheridan	682-6445	504-589-6445
ME, Togus	Orton Monroe	833-5267	207-623-8411 Ext. 5267
MD, Baltimore	Stephen Riddle	922-4707	301-962-4707
MA, Boston	Daniel Shaughnessy	835-2568	617-565-2568
MI, Detroit	Edward Gromek	226-4100	313-226-4100
MN, St. Paul	Ralph Mayer	725-3162	612-725-3162
MS, Jackson	James Ford	490-4848	601-965-4848
MO, St. Louis	Daniel Draney	279-5136	314-425-5136
MT, Ft. Harrison	George Stirner	585-7266	406-442-6410 Ext. 266
NE, Lincoln	Birdine Zariski	541-5013	402-437-5013
NV, Reno	O. D. Hoyle	470-5691	702-784-5691
NH, Manchester	Maurice Ahearn	834-7668	603-666-7668
NJ, Newark	Kenneth White	341-3063	201-645-3063
NM, Albuquerque	Armando Sandoval	474-3759	505-766-3759
NY, Buffalo	Paul Bero	437-5244	716-846-5244
New York	Carol Plotkin	660-6944	212-620-6944
NC, Winston-Salem	Paul Caudill	670-3323	919-761-3323
ND, Fargo	James Puppe	783-5130	701-237-5771 Ext. 130

State/ Station	Coordinator's Name	FTS Phone Number	Commercial Phone No.
OH, Cleveland	James Corona	942-3529	216-522-3529
OK, Muskogee	Joe Butenschoen	736-2127	918-687-2127
OR, Portland	John Pacella	423-2461	503-221-2461
PA, Philadelphia	Leon Lord	486-5906	215-951-5906
Pittsburgh	Jeff Hassinger	722-6616	412-644-6612
PHIL, Manila	Alan Osmundsen	(Overseas)	521-7116 Ext. 2590
PR, San Juan	Mildred Gonzalez	753-4417	809-753-4417
RI, Providence	Frank Anzivino	838-4418	401-528-4418
SC, Columbia	Rick Benner	677-5112	803-765-5112
SD, Sioux Falls	Gary Meade	789-6825	605-336-3230 Ext. 6825
TN, Nashville	Mary Lee Fielder	852-7760	615-736-7760
TX, Houston	Ruby Rhodes	526-2009	713-660-4009
Waco	Ron Denison	728-6734	817-757-6734
UT, Salt Lake City	Gary Bradak	588-5515	801-524-5515
VT, White River Jct	R. Scott Ogilby	834-1366	802-295-9363 Ext. 366
VA, Roanoke	Theodore R. Murdock	937-4303	703-982-4303
WA, Seattle	David Peterson	399-7097	206-442-7097
WV, Huntington	George Brammell	924-5481	304-529-5481
WI, Milwaukee/Wood	Mark Rutberg	362-8212	414-671-8212
WY, Cheyenne	Terry Harbick	328-7416	307-778-7337 Ext. 7416

STATEMENT OF THE PARALYZED VETERANS OF AMERICA REGARDING THE NOMINATION OF D'WAYNE GRAY TO BE CHIEF BENEFITS DIRECTOR OF THE DEPARTMENT OF VETERANS AFFAIRS

Mr. Chairman and Members of the Committee, Paralyzed Veterans of America (PVA) is grateful for this opportunity to submit a written statement for the record concerning the nomination of D'Wayne Gray to be Chief Benefits Director of the Department of Veterans Affairs.

The historical significance of this hearing is most important when viewed in context of the newly created Department of Veterans Affairs (DVA). Since absorbing all the activities of the Veterans' administration on March 15, 1989, the DVA continues to implement the numerous provisions contained in Public Law 100-527. The process of selecting highly qualified individuals to occupy leadership positions within the Department represents, we believe, the most significant aspect of these provisions.

Your committee is today considering the President's nomination for the position of Chief Benefits Director (CBD) of the Veterans Benefits administration (VBA). As we stated in our testimony supporting the enactment of Public Law 100-527, the roles of Chief Benefits Director and Chief Medical Director (CMD) are the most essential and consequential operating positions within VA. It is in these areas that service to our Nation's veterans is implemented. The ideology and policy objectives of these two individuals have direct impact on individual veterans across the country.

We are optimistic that the search commissions established for recommending individuals for CBD and CMD, along with the formal nomination by the President and confirmation by the Senate for these positions, will serve to ensure that only the most eligible and appropriate individuals are named and confirmed. We believe this process allows for greater baseline assessments of the candidate's qualifications and intentions as well as increasing the visibility and accountability of that individual.

With a budget in excess of $17 billion, the CBD is currently responsible for approximately 12,600 employees and the provision of direct monetary benefits for such programs as compensation for service-connected veterans, pension for low-income veterans and survivors, educational assistance, vocational rehabilitation, and VA guaranteed home loans. In addition, the CBD oversees the operation of VA's insurance program which is the fifth largest in the country.

If confirmed as Chief Benefits Director, D'Wayne Gray will be responsible for ensuring that these programs are managed efficiently and that benefit awards are adjudicated accurately and without unreasonable delay. He will most certainly be confronted with increased pressure from the administration to "do more with less." In his deliberations, we encourage him always to consider, first and foremost, the well-being of those veterans and their families who find themselves recipients of VA benefit checks.

Given the lack of appropriations to accomplish many congressional objectives, the delivery of good and timely service to veterans will continue to be a difficult job. Although we are encouraged by the enthusiasm of VBA managers to implement cost-effective solutions to massive problems, VBA remains desperately in need of additional FTEE's. It is critical that the new CBD, in his role as a veterans' advocate, forcefully articulate VBA's resource needs in order to effectively improve productivity.

It is also essential that the CBD do everything in his power to remove bureaucratic barriers that inhibit the implementation of good ideas. Far too often, layers of bureaucracy result in the efficient investment of many FTEE's time and effort. To facilitate the implementation of good ideas, it is important that the CBD analyze every VBA managerial function to ensure that it contributes to the ultimate mission of timely and accurate delivery of benefits and services to veterans.

It is imperative that in this time of fiscal austerity, the Chief Benefits Director must increase the momentum and expansion of recent initiatives in VBA's ADP systems modernization. Together with a sufficient level of FTEE, this effort will be an important factor in restoring good service to veterans. Once again, we call upon the CBD to ensure that the modernization effort in ADP receives priority attention by VBA management and consistent/adequate funding. The Model Station Project represents one of the best on-going initiatives in VBA. The CBD's full commitment to this effort and to such initiatives as the VBA/VHS&RA data exchange is crucial.

The incredible backlog of pending cases in VBA has now reached over 700,000 claims and is growing rapidly. Compensation, Pension, and Education adjudicators, although turning out an increased number of dispositions, simply are unable to keep pace with the growing backlog. We believe one of the first actions the Chief Benefits Director takes must be to reverse this trend and reduce the number of pending cases this year. Such a reduction in pending caseload must not be done at the expense of thorough adjudication and accurate decisions. It must be done with increased FTEE, improved ADP, and on-going analyses of all work functions.

The issues of consolidation and reorganization within the Department will require significant review by the new CBD. Although, in certain cases, such managerial restructuring represents potentially rewarding results, PVA strongly urges that this concept be pursued with extreme caution.

The consolidation of the adjudication of chapter 30 awards in several regional processing centers, for example, has met with great success. Other programs however, may be less conducive to regionalization. The most important outcome of such change, in any case, must be high quality localized service for veterans and their families who need assistance. Veterans who are delinquent on mortgage payments, for example, must have access to VA loan servicing. Veterans in need of vocational counseling or who need assistance with disability claims must have easy access to qualified counselors and benefits specialists.

In Veterans Services, there are two areas which PVA believes deserve the immediate attention of the CBD. First, literally hundreds of thousands of veterans are unable to reach a Veterans Benefits Counselor on VBA's nationwide toll-free telephone lines. As a result, although the number of abandoned claims and deprived benefits is unknown, it is clear that an unacceptably high number of callers are unable to get assistance and advice from benefits experts.

Second, as a result of constant reductions in VBA staff, Veterans Services Division has been unable to provide adequate outreach activities for the neediest groups of veterans: the homeless, disadvantaged, and elderly groups. In-house workloads occupy much of the time of staffs already spread so think that outreach efforts are impossible. Some VA offices are unable to even provide personal interviews in-house—a situation unthinkable several years ago.

Concerning Vocational Rehabilitation and Counseling, the CBD must confront the related problems of excessive case workloads for vocational rehabilitation specialists and the long delays in each stage of a veteran's rehabilitation program. We are hopeful that the new CBD will quickly grasp the importance of this program which helps restore disabled veterans to the status of economically productive, taxpaying workers. Recommendations made by the Veterans Advisory Committee on Rehabilitation concerning case management should be fully implemented. Once again, the combination of sufficient FTEE, improved ADP, and efficient management represents the only hope for this critical element of VBA. The members of PVA are particularly affected by the well-being of this program.

As you know, last July the General Accounting Office (GAO) released a report entitled: "Law Allows Compensation for Disabilities Unrelated to Military Service." In summary, the report recommends that the Congress consider the exclusion of disability compensation for certain diseases currently included in VA's disability rating schedule. GAO further suggests that the Congress may wish to redefine the term "service-connected."

Although PVA strongly opposes the report's recommendations, we are equally troubled by the lack of any opposition to the report by the Department of Veterans Affairs. For an agency whose principal mission is the well-being of those who served our country, the lack of an immediate and hard-lined rejection of the GAO report is irresponsible and, to say the least, disappointing.

We therefore call upon the new Chief Benefits Director to take an advocate's role in denouncing this recommended departure from what has been a fair and equitable compensation program. To do less would be to succumb to yet another attempt to shrink veterans' programs and undermine the fundamental basis on which disability compensation is awarded—all in the name of deficit reduction.

Finally, we are concerned about the direction VA appears to be going in regard to the Home Loan Guaranty Program. Although Public Law 101-237 establishes the new indemnity program for VA home loans and provides other significant improvements, the Department of Veterans Affairs appears to be restricting loan activity instead of promoting it.

For many of PVA's service-connected members who qualify for the specially adapted housing grant, VA's loan guaranty program provides important benefits which facilitate the purchase of a home and offer a certain degree of financial advantage. For over half of our members who are non-service-connected for their spinal cord injuries and diseases, such a purchase takes on additional significance. With a significantly smaller pool of available and accessible/adaptable houses, these catastrophically disabled veterans are extremely vulnerable to shortcomings and restrictions in DVA housing program.

PVA strongly urges the new CBD to oppose any effort to abandon the full implementation of this program. In this time of national housing shortages, it is critical that VA continue to make home ownership a possibility for servicemen and veterans.

In closing, Paralyzed Veterans of America wishes to take this opportunity to convey, through your committee, our sincere gratitude to the departing Chief Benefits Director, R. John Vogel. Under his able leadership, the Veterans Benefits administration (formally the Department of Veterans Benefits) has continued to provide veterans and their families with the best service possible, in spite of continuous assaults on benefits programs and FTEE by the Office of Management and Budget. PVA has always appreciated the free exchange of ideas and open dialog that John has made possible. His leadership and managerial expertise will be missed by all of us who have worked closely with him. Most important, his sincere concern for the well-being of the veterans he served as CBD is recognized and appreciated by our members.

If D'Wayne Gray is confirmed as the new CBD, we wish to offer our full cooperation and assistance in making his tenure a successful one. We look forward to working with him and, hopefully, through our combined efforts, veterans will be afforded the best possible benefits services that we, as a Nation, can provide.

WRITTEN PREHEARING QUESTIONS FROM CHAIRMAN CRANSTON TO D'WAYNE GRAY AND THE RESPONSES

Question 1. What is your concept of the nature and extent of the Federal Government's obligations to the Nation's veterans and their dependents and survivors?

Answer. I believe that the government owes a special debt of gratitude to those who serve, and that it is the government's obligation to provide a set of benefits to veterans and their families to ensure that to the extent possible, they are not disadvantaged as a consequence of their service relative to those who did not

Question 2. Section 3(c)(1) of the Department of Veterans Affairs Act requires that the Chief Benefits Director be appointed "solely on the basis of integrity and demonstrated ability in fiscal management and the administration of programs within the Veterans Benefits administration or programs of similar content and scope." Please describe the specific experiences which you have had that satisfy the requirements of "demonstrated ability in fiscal management . . . of" and "demonstrated ability in . . . the administration of programs within the Veterans Benefits administration or programs of similar content and scope."

Answer. During my final 2 years of active duty, I commanded the Marine Corps component of the U.S. Pacific Command. I directed the planning, logistics, and training activities of all Marine air, ground, and support forces in an area encompassing half the globe. I managed a force of 86,000 people, with a $1.7 billion payroll and a $717 million operating budget. I operated three air stations and a complex of ground force bases in Japan and Hawaii. With the help of a good staff, I managed my budget within 1/2 of 1 percent of my appropriations.

During the 2 years before that I was the Chief of Staff at Marine Corps headquarters in Washington. Among other functions, I directed the planning, policy, budget, manpower, logistics, research and development, training, public affairs, and legislative affairs staffs of the Marine Corps.

Immediately before that, I was the Marine Corps' director of personnel management. I directed job classification, distribution, duty assignment, promotion, discharge, retirement, performance evaluation, awards, and personnel records system management for the entire Marine Corps.

In these, and in earlier assignments, I have been totally responsible for the wellbeing of those placed under my command. In carrying out these duties I have been a career counselor, insurance counselor, advocate for adequate housing—on base and in the civilian community—for my people, negotiator with local government entities for equal opportunity employment for military dependents, education counselor, negotiator of labor contracts, and a myriad of other things connected with the health and welfare of my people.

In civil life, I have, among other things, supervised a retirement center and been on the board of directors of an insurance company and a publishing house.

Each of these experiences has, in one way or another, helped to prepare me for the great challenge of serving as Chief Benefits Director.

Question 3. As Chief Benefits Director, you would be responsible for managing a program of almost 12,500 civilian employees. Please comment on those aspects of your experience which involve the management of such a large and widely-dispersed work force.

Answer. In my last command, as described above, I supervised 86,000 people working in various locations in California, Arizona, Washington, Alaska, Hawaii, Japan, Guam, the Philippines, at Diego Garcia, and on capital ships of the Navy throughout the Pacific and Indian Oceans. I am familiar with, and comfortable with, the requirements of managing a large, widelydispersed work force.

Question 4A. Since you would be, if confirmed, the first CO who is not a product of the VA career force and who therefore would not be immediately familiar with program administrative procedures, institutional history, or user needs, what management style do you envision using? For example, would you tend to require that issues be settled before reaching you and that you be presented with compromise or consensus recommendations, or would you prefer to hear competing views and resolve conflicts yourself?

Answer. I plan, if confirmed, to embark upon a two-track program to overcome the challenges inherent in being a CBD without a career of preparation within the VBA.

One track will be total immersion in the planning, budgeting, and program supervision activities of the Central Office. The other will be a heavy schedule of visits to the Regional Offices, observing the actual delivery of benefits to the client population.

The management style will be participatory. The experts in VBA will develop the options, delineating the advantages and disadvantages of each. Together, we will debate the pros and cons of each. I will seek the advice of all who have expertise in the subject matter at hand and solicit the viewpoints of those inside and outside VBA who have interests at stake. I will decentralize decision-making to the extent feasible, but it shall be my duty to ensure a coherent, VBA-wide approach to our tasks. The major decisions, of course, must rest with me.

Question 4B. How do you plan to overcome your lack of experience in veterans benefits programs?

Answer. I expect to overcome that deficit through hard work and concentrated study under the tutelage of the leadership of the Department of Veterans Affairs and the most knowledgeable individuals I can find inside and outside the VBA.

Question 4C. What are your plans for reliance on career force managers and advisory committees for advice as contrasted with hiring consultants and special assistants?

Answer. I expect to find in the career force and advisory committees the help I need to manage the VBA. I foresee no need for surrounding myself with special assistants and consultants.

Question 5A. The current multiDeputy structure in VBA's organization imposes a supervisory layer between the CBD and VBA program directors that at times screens their direct access to the CBD. Do you plan to continue this organization?

Answer. I plan to manage VBA in a way which provides access to me for those who need it, and which gives me direct access to the program experts I need to support me. I am not aware that the current organization impedes such access, and I intend to continue in the current structure unless I identify some problem that suggests the need for change.

Question 5B. Other than with respect to the Deputy structure, what are your plans for reorganizing VBA?

Answer. As discussed above, I have no plans for reorganizing VBA. As I have the opportunity to work with the VBA organization and gain experience with it, I may see the need for change; however, I have no preconceived plans.

Question 5C. Do you plan to appoint any Deputy Director from outside VBA's career force?

Answer. I do not plan to appoint any Deputy Director from outside of VBA.

Question 5D. Do you plan to appoint Regional Office directors from outside VBA's career force?

Answer. One could envision cases, as have occurred in the past, in which highly qualified individuals from outside of VBA might be considered for a vacant regional office Director position. However, at this time, I do not have any plans to make appointments from outside of VBA's career force and I would think that appointments from outside the career force would be exceedingly rare.

Question 6. What is your feeling about major Central Office program Directors having their own advisory committees of field managers.

Answer. This appears to me to be a commendable idea which has proven to work to the advantage of both the Central Office and field organizations. These committees are common throughout the VBA and should be an excellent means of identifying the major concerns of our regional office employees. These groups also offer the advantage of ensuring that Central Office program managers have the benefit of field station insight when developing positions on emergent issues.

Question 7. Do you perceive yourself as being limited by the fact that your nomination comes subsequent to the establishment of the administration's FY 1991 budget, thereby largely precluding your input concerning fiscal policy for FY 1991?

Answer. Obviously, I have played no part in the formulation of the President's FY 1991 budget, which creates inherent, but not overwhelming limitations. First, it is my understanding that the President's budget treats VBA quite fairly. Second, given the iterative nature of the budget process, I will have many other opportunities to influence the fiscal aspects of FY 1991.

I am very fortunate that I have the opportunity, if confirmed, to be in place from the very beginning of the FY 1992 planning and budgeting process. I have been advised that VBA has a very well defined and integrated process of developing and discussing planning issues, which then serve as the basis for the formulation of the budget. I am looking forward to participating heavily in that process if confirmed.

Question 8. What is your general philosophy regarding the use of decentralized pilot programs and test stations for research and development purposes?

Answer. I am very supportive of the concept of testing ideas through the use of pilot programs and test stations. I have seen the model station in Philadelphia and was impressed by the ability of the VBA organization to gather good ideas from around the country, test them and perfect them in the model station, then synthesize them into the regular operations of the agency.

When managing a large organization in a period of change, as VBA managers are, it makes eminently good sense to test and perfect ideas before implementing them. Pilot programs and test stations are an excellent way to accomplish that.

Question 9A. What are your views on the purposes, design, and results to date of the Management Efficiency Pilot Program?

Answer. I find the premise of the Management Efficiency Pilot Program (MEPP), which is to "let managers manage," sound. The program initiative had its beginning in the VA with the view among key management officials that a growing body of constraints in law, regulation and policy have unduly impeded VA field management and, to some extent, benefits delivery.

Question 9B. Do you plan to support continuation of the program?

Answer. From what I have learned so far about the program, I would continue to support it.

Question 9C(i). If so, how do you plan to evaluate it and make use of the findings from it?

Answer. Assuming continuation, I would do what is necessary to ensure that program integrity is retained, that controls are in place and that results are documented.

Question 9C(ii). If not, why not?

Answer. N/A.

Question 10A. Please describe your involvement as Major General Promotion Board President in October 1986 in the Board's consideration of two Generals whose promotions the then-Secretary of the Navy, John Lehman, Jr., and/or then-Commandant of the Marine Corps, Gen. P. X. Kelley, actively supported and which the Senate Armed Services Committee later did not approve on the grounds that there had been considerable evidence of "impropriety and unfairness" in the selection process.

Answer. I was, as the question states, the President of the Marine Corps Major General Selection Board which met in October 1986. I believe that all of my actions pertinent to the Board are described in the answers to the detailed questions below.

To sum up, the events surrounding this Board were troublesome in the extreme. I wish I could have found a course of action to have convinced the Secretary of the Navy that he was using the considerable power given him under the law in a counterproductive way. Looking back, I still do not know how I could have succeeded in accomplishing that.

This misadventure reinforced in me the knowledge that power is a commodity to be expended wisely and carefully—and that there is such a thing as having authorities that one should not use. The process of answering these questions has again given me that reminder, and it will stand me in good stead if I am confirmed as CBD.

Question 10B. Please provide copies of any contemporaneous documents indicating your position on the reconvening of the Board.

Answer. There are no such documents.

Question 10C. Did you, or do you now, believe that the reconvening of the Board was improper or unwise?

Answer. I believed then, and I believe now, that the Secretary of the Navy acted both improperly and unwisely in amending the precept to the Board and ordering it to reconvene.

Question 10D. Did you make any effort to object to the reconvening of the Board? If so, to whom did you object and in what form?

Answer. I challenged the rectitude of reconvening the Board twice.

First was in the office of the Secretary of the Navy, when the possibility of amending the precept was first raised. I had reported, to the Secretary, the results of the Board's deliberations under the original precept. After hearing the names of those selected for promotion, the Secretary asked my judgment as to who would be selected if he amended the precept to direct the Board to make one additional selection.

My response was that one could not predict the Board's action on such direction, that the competition would be intense between several candidates—none of whom I named.

The Secretary then asked who the board would select if he amended the precept to direct the Board to select one additional aviator. As there was only one additional aviator among the remaining candidates in the promotion zone, answering that question was easier. I gave him the name of that remaining aviator.

At that point, the Secretary asked if he had the authority to so amend the precept. I deferred to the Secretary's judge advocate, who was present throughout the meeting. The judge advocate stated that such was within the Secretary's authority and reminded the Secretary of precedents in which selection board precepts had been amended after the initial report of the Board. Having previously served as the Marine Corps' Director of Personnel Management, and, as such, having been responsible for the Marine Corps' promotion system, I knew of some of the precedents mentioned. Moreover, I knew that the results of those earlier boards—boards whose precepts had been amended—had passed legal scrutiny and the officers they recommended for promotion had been confirmed by the Senate and their promotions effected.

I believed then, and I believe now, that the Secretary was within his lawful authority to direct the Board to make additional selections. However, I believed then, and I believe now, that amending the precept for the Board in question was the wrong thing to do.

My challenge to the Secretary was phrased as follows: "Mr. Secretary, you have asked only if you have the authority to do this. You have not asked me if it is the right thing to do." His response was, "No, I am not asking you that. I will talk to the Commandant (of the Marine Corps) about that."

Two comments on the above:

1. Reading the statements in the above paragraph, the challenge (as I have characterized it) that I made to the Secretary may seem rather indirect. I cannot change that; those were the words that were spoken. I can only declare that, in the context in which they were spoken, there is no question that the Secretary of the Navy understood my statement as an objection to the course upon which he was about to embark.

2. In the Senate Armed Services Committee report on this matter (Senate Executive Report No. 100-3, of July 24, 1987), it is reported that the Secretary of the Navy claimed no recollection of my having questioned the wisdom or propriety of his course of action. I can accept that only in the possible context that my opinions were so inconsequential to the Secretary that the conversation did not remain in his memory. It happened exactly as I have described it.

My second effort to prevent the amending of the precept was with the Commandant of the Marine Corps.

Immediately following my meeting with the Secretary, described above, I returned to Marine Corps headquarters and telephoned the Commandant in New York. I told him of my meeting and alerted him to expect a call from the Secretary of the Navy. The Commandant agreed, as I knew—from long association—that he would, that the precept should not be amended. He said he would try to change the Secretary's mind. I am confident that he did try to do so, but failed.

Question 10E. Did you, or do you now, believe that at any time improper or inappropriate influence was being exercised, or being attempted to be exercised in the case of the two Generals initially not selected by the Board?

Answer. I believe then, and I believe now, that the Secretary of the Navy used his authority improperly to cause the selection of one of the officers initially not selected.

The manner in which the precept was amended, i.e., the authorization to select two, vice one, additional officers for promotion, was, in my opinion, an effort to camouflage the identity of the officer in which the Secretary had primary interest.

As reported in the SASC report, the Commandant of the Marine Corps gave me additional information on one officer. I passed that information to the Board, and that officer became the second additional selectee. I did not believe then, nor do I believe now, that the Commandant exercised or attempted to exercise improper influence on the Board.

Question 10F. What did you report to the Board about conversations you had had with Secretary Lehman and Commandant Kelley about the addition of the two selections for promotion?

Answer. I reported to the Board, in detail, every aspect and every nuance of every conversation with both the Secretary and the Commandant.

Question 10G. Did you express any view to the Board of anyone else in the Department of Defense about the propriety of that addition in light of your conversations with the Secretary and the Commandant?

Answer. I told the Board my opinions as expressed in the answers to the preceding questions.

I expressed the opinion that we (the Board) had been manipulated by the Secretary, and that the Secretary had been wrong to do so.

I expressed the opinion that, manipulation notwithstanding, the Board had received an order from an official nominated by the President, confirmed by the Senate, and appointed to an office in which he had the lawful right to do things that did not conform to our culture as members of the Marine Corps.

I outlined our options as I saw them, i.e.:

1. Recommend additional officers for promotion, or
2. Certify to the Secretary that there were no additional officers among those eligible for promotion who were fully qualified for promotion.

I reminded them of our oaths of office, as Marine officers and as members of the Board, and I reminded them that, at the conclusion of our proceedings, each of us would have to certify that we were recommending for promotion only those officers who were both fully qualified for promotion and who were best qualified from the list of eligibles provided in the precept.

I expressed the opinion that we were not being manipulated into recommending the promotion of unqualified officers nor into replacing our earlier selections with less qualified officers. Any such attempt clearly would have been outside the law, and we would not have allowed it to succeed.

With regard to my conversation with the Commandant, I reminded the Board that the Commandant (himself a veteran board member) expected us to live up to our oaths and that the added information he had given the Board, through me, was only that, added information for us to consider, and was not an attempt to improperly influence us to select that individual.

Question 10H(i). In retrospect, are you satisfied you did all you properly could to resist their efforts?

Answer. I am satisfied that my actions at the time were correct.

As a serving officer, it was my implicit duty to give my best advice to my seniors on any matter in my purview. I did so in this case.

One could argue that my challenge to the Secretary of the Navy was quickly abandoned. This is true. It was deliberately done in that manner in order to preclude his becoming so stubbornly fixed in his decision that he would not give full credence to the argument that I knew he would get later from the Commandant.

As a serving officer, it was my sworn duty to obey the lawful orders of those placed in authority above me. In this case, I did not like it—but I did it.

Question 10H(ii). If not, what more could you and should you have done?

Answer. Not applicable.

Question 10I. Did you, or do you now, believe that the Armed Services Committee's action and overall assessment of the situation was correct?

Answer. The Committee's analysis addresses the following aspects of the situation:

Laws governing the promotions
Original precept and proceedings
Amended precept and proceedings

The discussion of the laws governing the promotions appears to me to be factual.

The discussion of the original precept and proceedings is factual.

The discussion of the amended precept and proceedings focuses on the actions of the Commandant of the Marine Corps and the Secretary of the Navy.

It finds the Commandant's comments to me to have brought "into serious question" the fairness of the selection process as it pertained to officers considered but not selected by the Board. I understand how individuals could reach that conclusion. I did not, and do not.

It reports Board members' belief that the Secretary's actions constituted an improper exercise of Secretarial authority. I agree.

The Committee's action was to recommend confirmation by the Senate of only the eight officers recommended by the board under the original precept. I did not, and do not, agree that this action was the correct one; in my judgment, all ten of the nominees should have been confirmed.

My disagreement with the action taken should not be interpreted as a disagreement with the Senate's role in providing advice and consent to the President's nominations. It is an essential role, and the Nation has benefited from the wisdom of the drafters of Article II of the Constitution. My disagreement is only with the judgment made in this case.

It is some comfort to me that I am not alone in my opinion. Using the same facts that were used by the SASC, the General Counsel of the Department of Defense, the Secretary of Defense, and the President judged that all ten officers should be promoted, and, therefore, forwarded their nominations. Moreover, as both Senators McCain and Dixon stated in speeches in the Senate immediately following the presentation of the SASC report to the Senate, the vote in the SASC on Senator Dixon's recommendation that all ten nominees be recommended for confirmation was a 10–10 tie. That tie vote cost two fine officers their promotions and tarnished their reputations forever.

Question 10J. The Armed Services Committee's July 24, 1987, report (Sen. Exec. Rpt. No. 100-3) on this matter concludes that the Secretary of the Navy had another option available to him if he believed a change was necessary in the Board's instructions after it had reported: that is to recommend to the Secretary of Defense that the Board report be disapproved and the Board be reconvened under new instructions. Were you aware of that option when the Secretary of the Navy informed you of his decision to reconvene the Board with the addition of two authorizations, and, if so, did you advise the Secretary about it and recommend that course?

Answer. I was not aware of the option described.

Question 10K. In retrospect, do you believe that would have been the proper or more appropriate course to have been followed?

Answer. If the Secretary believed a change in the Board's instruction to be necessary after the Board's original report, clearly it would have been in the best interests of all concerned for him to have referred the matter to the Secretary of Defense. Had I known of the existence of that option, I would have recommended it to him.

Question 10L. Do you agree with the policy embodied in the amendment to Department of Defense promotion board regulations made in the aftermath of this incident that the Secretary of Defense must approve any amended precepts after a board has reported?

Answer. I heartily agree.

Question 11A. What does this episode in your past say about your willingness in the position to which you have been nominated to resist unwise or inappropriate directives?

Answer. Nothing; the position I was in as a military officer serving as president of a selection board and the position for which I have been nominated are significantly different. And, in response to the inference that I draw from the question, no one ever has suggested to me that my actions with regard to the selection board in question were in any way improper. Certainly, in my mind, then and now, my actions throughout this distasteful episode were correct and honorable.

Question 11B. Do you see a difference between the chain-of-command process in the Armed Services and your responsibilities if confirmed as Chief Benefits Director in terms of responding to directions you believe are unwise or unwarranted or could be harmful to veterans or VBA?

Answer. There are clear and significant differences between service as a Marine Corps officer and service as Chief Benefits Director in the Department of Veterans Affairs.

The military person is required, by force of law, to obey the lawful orders of his seniors. What has been called "the unlimited contract" under which military people operate—the acceptance of the authority of one's commander to put one in situations in which the likelihood of being killed or maimed is very real and present—makes such constraints both logical and necessary. As in all other walks of life, one is obligated to give his seniors his best advice, even when that advice is not welcomed by the senior. In the military, however, once the senior has made a decision and issued an order, if that order is within the law, it must be obeyed. Disobedience of a lawful order is a specific and serious criminal act under the Uniform Code of Military Justice.

The position of Chief Benefits Director, by contrast, was created by a law obviously intended to endow its occupants with a certain freedom of action.

—Unlike most Presidential appointments, the Chief Benefits Director must be appointed "without regard to political affiliation or activity."

—Unlike most Presidential appointments, the Chief Benefits Director is appointed for a specific period of time, 4 years.

—Unlike most Presidential appointments, the Chief Benefits Director may not be removed from office without the reasons therefore being communicated by the President to both Houses of Congress.

—Unlike most Presidential appointments, the Chief Benefits Director must be appointed from a list of individuals recommended by a commission, the composition of which is established by law.

Clearly, the Congress in framing this legislation, and the President in signing it, envisaged the need for the Chief Benefits Director to be able to express his views and carry out his duties without fear of arbitrary removal from office and free of the exigencies of partisan politics.

The case can be overstated. The Chief Benefits Director performs his duties under the supervision of, and is responsible to, the Secretary of Veterans Affairs. He is expected to be a member of the team, responsive to and supportive of the policies of the Secretary of Veterans Affairs and the President. Had I not been confident that I could operate in that mode while at the same time following the dictates of my conscience, I would not have allowed my name to be placed in nomination.

Question 12. Please describe in detail any conversation which, in connection with your selection for the position of Chief Benefits Director, you have had with any official of the Department of Veterans Affairs, OMB, or the White House about your political affiliation, political qualifications, or political activity.

Answer. There has been only one such conversation, and I am certain that it was a consequence of a procedural error.

Shortly after my name had been submitted to the White House as a prospective candidate for nomination as Chief Benefits Director, I received a telephone call from someone identified as a member of the Presidential Personnel Office. I was asked a series of routine questions; my impression was that the questions were being read from some sort of standard checklist.

When we arrived at the question of my party affiliation, I balked, telling my caller that the position for which I was under consideration was, by law, exempt from a political litmus test. The next question (apparently from the checklist) concerned my activity in support of the last Presidential campaign. I reminded my caller of my answer to the previous question. Somewhat irritated, I continued. I explained that I had not sought this nomination, but instead had been recruited for it; that I was at the time happily and profitably employed; and that if I were mistaken in my belief that this position was free of political content, my name should be removed from the list of those under consideration.

My caller was somewhat taken aback, but indicated a clear understanding of what I had said. I heard nothing more along those lines, and, as I said above, it was obviously just someone following a standing operating procedure at a time when it did not apply.

Question 13. It is a reality of life that program heads such as the CBD, in charge of administering billions of dollars of benefits to millions of veterans, will receive pressure from both outside and inside the Department to approve or take a course of action that is "budget-driven" and not in the best interest of program integrity or program beneficiaries. If confirmed as CBD and if subjected to such pressure, how would you respond?

Answer. All of us involved in large enterprises know that we do not always get everything we want. Our system of government is built on compromise and consensus. Nonetheless, each of us must fight hard for that which we believe to be right. When presented with any scenario which suggests pursuing a course of action that is not in the best interest of my program's integrity or my program's beneficiaries, I will fight, within the system, to change the course of events.

Naturally, there are issues of various magnitudes which require appropriately scaled responses. Each program manager must draw the line for himself with regard to which issues he will stand and fight on. In response to an earlier question, I stated that I believe that this Nation owes an obligation to its veterans and their families to assure that a system is provided to assure that they are not disadvantaged by their service to their country. I assure you that were I ever placed in a position where I believed that "budget-driven" or ideology-driven actions were compromising that obligation, I would fight in every forum to which I have access to correct that situation.

I quickly add, however, that I have no reason to expect such a confrontation. Consensus building is a much-preferred route to progress.

Question 14. Are you giving consideration to making any proposals for the revision of any VA benefits? If so, please describe the possible changes.

Answer. I am giving no consideration to making any such proposals.

Question 15A. What is your general philosophy regarding office automation and your experience in modernizing field operations?

Answer. As Chief of Staff at the Marine Corps, I supervised the staff, including staff efforts toward improving information flow in garrison and on the battlefield. In this, as in many other areas, I am a generalist, not an expert. I learned enough, however, to know that the decisions inherent in a major ADP modernization are among the most difficult an executive may be asked to make. I look forward to the challenge, if confirmed, of completing the modernization of the VBA's systems.

Basic office automation capabilities such as word processing, electronic messaging, and correspondence management are fundamental tools needed to run a business such as VA's benefits delivery system. I believe that VA field operations have been successful in introducing such technology into the regional offices. I am told that productivity gains and quality improvements have begun to show. However, there is a long way to go in modernizing the ADP environment supporting the delivery of benefits before significant improvements can be passed on to our client, the veteran. The VBA's ADP Modernization Plan addresses short term and long-term initiatives toward that end.

Question 15B. What is your assessment of VBA's Automated Data Processing (ADP) Modernization effort to date, and what are your plans and priorities in connection with ADP in the future?

Answer. The VBA's ADP modernization efforts appear to have been carefully planned and seem very well suited to current and future VBA needs. The briefings that I have received to date on VBA modernization have been enlightening and I look forward to hearing about some of the technical complexities of modernization in the months ahead. There has been good progress in implementing modernization in spite of budget shortfalls. My current plan for ADP in VBA is to continue to implement modernization while fighting to eliminate budget uncertainties and stressing the importance of multiyear funding for this important program.

Question 15C. When do you foresee the ADP system being fully integrated and functioning within VBA?

Answer. The VBA 12-Point Modernization Plan defines an incremental or staged approach to Modernization.

Stage 1 of Modernization involves the acquisition of ADP platforms at VA regional offices. These platforms will allow the RO's to implement and realize the benefits associated with decentralized processing. Stage 1 award is currently planned for FY 1993, with full implementation by FY 1994.

Stage 2 of Modernization will involve the procurement of imaging hardware and software, local area networks (LAN's) for the RO's and any additional needed equipment for field support. Stage 2 award is scheduled for FY 1994, with full implementation by FY 1995.

In Stage 3, the final stage of VBA Modernization, VBA will acquire mainframe hardware, an operating system and any associated peripherals. Award of this stage is scheduled for FY 1995, with full implementation in FY 1996.

Question 15D. In the past, OMB has generally drawn an inverse relationship between expenditures for ADP modernization and expenditures for staffing, essentially viewing reductions in full-time employee equivalent (FTEE) levels as the "cost" associated with ADP innovation. In its April 1988 study carried out at VA's request, however ("Cost-Benefit Analysis of the Enhanced Decentralized Hospital Computer Program"), Price-Waterhouse found that the bulk of person-time "saved" under the computer program assessed was used either for new activities or activities that had not been fully funded. Additionally, they found that any personnel savings actually identified were in fractional FTEE which are very difficult to realize in a work environment. What are your views on the existence of a direct relationship, if any, between ADP Modernization and personnel reductions?

Answer. VBA fully agrees with the conclusions of the Price-Waterhouse study of the enhanced Decentralized Hospital Computer Program. VBA faces the same problems in trying to justify ADP programs by agreeing to eliminate FTEE. Reducing FTEE levels due to automation "savings" instead of redirecting the FTEE to needed areas is not a good strategy. I am told that VBA has already taken substantial reductions in FTEE to "justify" ADP innovation. I believe we should measure future ADP innovation by the gains we see in program efficiencies and by improvements in the quality and in the timeliness of our benefits delivery. A proper balance must be achieved between the saving of resources and the provision of better service to the veteran.

Question 16. In terms of budget priorities, how important is employee training in your view?

Answer. Employee training is the key to providing quality service. Funding for training is an investment which must be made for both new and current employees if we expect to achieve our organizational performance goals. The Adjudication Academy is a reflection of the commitment that has been made to train new personnel. Similarly, it is necessary to invest in continuing education for journeyman-level employees who are confronted with the need to implement program changes through revised procedures or new data processing systems. Employees should know how to do their job right the first time. The training cost to realize this expectation is a worthwhile expense, with payoffs in improved operational efficiency and satisfied clients.

Question 17. What is your assessment of the performance of the four Montgomery GI Bill (MGIB) regional centers in implementing the MGIB?

Answer. I am advised that after 7 months, the Atlanta, Buffalo, Muskogee and St. Louis regional processing centers are doing a very capable job of processing chapter 30 (MGIB) claims. To assure this, the VBA is providing considerable training, oversight and support from VA Central Office. All four offices are handling the chapter 30 workload in an adequate and timely manner.

Question 18A. What is your view regarding the use of VBA personnel according to their function rather than their assigned program; for example, do you believe that certain services now performed by personnel in the Loan Guaranty Service, such as phone contacts and answering loan-status inquiries, could be performed by VBA personnel in the Veterans Services Division who now perform similar functions with respect to other benefits?

Answer. Philosophically, my position is that cross-training should be as extensive as the mission and individual capabilities permit. Organizational placement is not as critical as having people who can do the job. I am told that, currently, there is considerable variability among regional offices in the use of employees. I am advised that some regional offices have been successful in having loan guaranty functions performed in the Veterans Services Divisions.

Question 18B. To what extent does the training for VBA personnel who have direct contact with veterans include subjects related to the VA home loan program?

Answer. Training on the loan guaranty program is part of the curriculum for Veterans Benefits Counselors, but I do not yet have specific knowledge about the degree of competence which is attained by individual VBC's in this area.

Question 18C. If confirmed, would you institute any changes in VBA staff training in this regard?

Answer. This is an area I would need to look at more before making a decision.

Question 19A. In FY 87, only 42 percent of VA disability compensation cases took more than 180 days to decide; in FY 89, the figure stood at almost 69 percent. Would you agree that this is not a satisfactory situation especially since these cases often involve basic eligibility questions of service connection or degree of disability on which eligibility for other VA benefits also depend?

Answer. I am deeply concerned about processing delays and will seek to improve timeliness of processing of disability claims as well as all other types of claims.

Question 19B. Please state the maximum claims-processing workload, timeliness and quality you would consider acceptable for VA compensation and pension claims.

Answer. I am advised we are not meeting our timeliness standards in the majority of regional offices, but that we are meeting the quality standards. If we can meet all of our published standards for timeliness as well as quality, I would consider this an acceptable first step.

Question 19C. What funding levels and FTEE levels would be necessary to achieve these goals?

Answer. Our budget submissions have been directed toward establishing a trend of improving timeliness and quality of processing. The current budget reflects an increase of approximately 150 full-time employees, which will help improve overall processing.

Question 19D. If confirmed, what steps would you take to achieve these goals and in what timeframe do you believe you would achieve them?

Answer. I believe the staffing increase I just mentioned, coupled with the implementation of ADP initiatives and the new training programs, will enable the VBA to make progress in meeting desired levels of service.

Question 20A. What is your view of the role of outreach in a VBA that has experienced in recent years a steady decline in staff size accompanied by substantial increases in claims processing backlogs and adjudication delays?

Answer. I see outreach as an integral part of VBA's benefits delivery program. We have a legal and moral obligation to reach out to veterans and their families, especially to identified groups which present special needs or problems. I am told we have actively continued our outreach efforts in recent years.

This situation, however, is complicated by the fact that pending claims workload and related timeliness concerns confront us. We are interested in accomplishing effectively both our outreach mission and our claims processing responsibilities. To do so, as best we can, requires careful balancing and distribution of available resources.

Question 20B. What do you see as VBA's responsibility with regard to providing outreach to users of VA medical centers, outpatient clinics and Vet Centers, homeless centers, military installations, State Employment offices, and prisons to ensure that eligible veterans are informed of their entitlements?

Answer. I see an outreach responsibility, at varying levels, to each of the entities and groups identified in the question. At this time, priority emphasis is on outreach services to homeless, active military pending separation and older persons.

VBA presence in VA medical centers continues, and VBA has consistently reiterated the importance of the hospital service program. The VBA relationship with Vet Centers has increased and improved through cross training and improved communications.

I am told our work with the military emphasizes casualty assistance, as well as improved information dissemination on benefit programs.

I am also told that VBA has strong cooperating relationships with State employment activities, has worked with the Department of Labor on the National Veterans' Training Institute Program and conducts outreach to incarcerated veterans as needed.

Question 20C. Do you have any plans to reverse the recent trend of declining outreach capability?

Answer. It is my understanding that the VBA is trying some new techniques to supplement the declining human resources available for outreach efforts. In particular, the VBA is attempting to make use of automation as much as possible. Automation efforts include initiating improved Veterans Assistance Discharge System information package for newly separated veterans, disseminating software through military channels on benefits programs, and improving automation for outbased staff. Other means, such as coordinating our information and program objectives to community based organizations and other public and private providers who can assist us in spreading the outreach word, have also been mentioned and will be explored once I am able to study the situation more closely.

Question 21. What will be the nature and extent of VBA's participation in the Department of Labor's Pre-separation Employment and Training Pilot Program mandated in section 408 of Public Law 101-237?

Answer. Both the Veterans Assistance Service and the Vocational Rehabilitation and Education Service are actively working with DoL and DoD in the start-up arrangements for this pilot program. VA's roles and responsibilities for purposes of the memorandum of understanding among the three Departments are still being developed.

Question 22. What is your assessment of the effectiveness with which VBA has utilized the special contract funding authority (out of the readjustment benefit account) in section 1797 of title 38 to provide counseling to applicants for and recipients of VA-administered educational assistance benefits?

Answer. I am told that the legislative assistance given to us to use readjustment benefits funds for contract counseling is making improvements on behalf of veterans. We expect the number of veterans and dependents using the centers to increase significantly now that contract negotiations, held in fiscal year 1989, are concluded. Because of this, our counseling psychologists are able to concentrate more of their time to our primary mission—the vocational rehabilitation of service-disabled veterans.

Question 23A. The average caseload for VA vocational rehabilitation specialists has recently increased to nearly 220, compared to a workload of 125 cases for counterparts in State/Federal rehabilitation programs. Veterans must now wait 100 days on an average from the time the Vocational Rehabilitation and Counseling (VR&C) program receives an application until the initial interview. Some believe that large backlogs may seriously undermine the effectiveness of the VR&C program. How appropriate or inappropriate, in your view, is the current size of the vocational rehabilitation specialist caseload?

Answer. I believe the caseloads of the vocational rehabilitation specialists are too high.

Question 23B. If you believe it to be too large, what action will you take to bring about its reduction?

Answer. I have not yet formulated a plan in this area. I realize that it is a critical issue that requires my personal attention and extensive evaluation. I plan to give it the attention which it deserves.

Question 24A. The VA home loan guaranty program has been utilized by millions of veterans and their families. Congress made a new commitment to it in the last session by way of fundamental legislative changes enacted in Public Law 101-237, under which the Federal Government's long-term support for the program was placed on a regularized, stable basis. What do you see as the primary advantages of VA's loan guaranty benefit for veterans?

Answer. The VA home loan benefit offers veterans several advantages, including the opportunity to purchase homes without a downpayment, a fixed administered interest rate that is usually slightly lower than the conventional market and the opportunity to offer their homes for sale with assumption of the VA loan.

Question 24B. Are you committed to the continuation and strengthening of the VA home loan guaranty program?

Answer. Yes. The VA home loan program has been and continues to be an important part of the benefit package available to present and former members of the Nation's armed forces. I believe VA must continue to work to strengthen the program through changes designed to minimize losses while still ensuring that qualified veterans wishing to purchase homes have every opportunity to do so. It is only through such constant vigilance that the program can be kept a viable and important benefit for years to come.

Question 24C. If so, how do you plan to ensure the continuation of this vital program in the face of OMB efforts to alter the basic nature of the program by imposing a downpayment requirement and increased origination fees?

Answer. I am committed to a strong loan guaranty program and any changes to the benefit that we would support would only serve to make the program stronger and more viable for current and future veterans.

Question 25A. As you know, a major feature of the VA-guaranteed home loan program is that it enables veterans, whose service to their country may have prevented them from saving enough cash for a downpayment but who are financially able to make regular mortgage payments, to purchase a home without a downpayment. Please describe your views on whether and to what extent the no-downpayment feature of VA-guaranteed loans is important to the VA home loan program.

Answer. The no-downpayment provision has been an important feature of the VA home loan benefit. I understand that the large majority of guaranteed loans have been made with no downpayment. Approximately 20 percent of VA borrowers did make some downpayment, and it is clear that loans on which downpayments are made are safer loans, since the existence of even a small downpayment reduces the incidence of defaults and foreclosures. However, I would oppose any downpayment requirement so high that it would prevent otherwise qualified and deserving veterans from obtaining home loans.

Question 25B(i). The Government National Mortgage Association (GNMA) effectively controls 95 percent of the VA secondary mortgage market; GNMA's rules about the loans that lenders may include in GNMA-backed loan pools effectively govern the types of VA loans lenders are willing to make. Recent articles in the popular and mortgage-trade press have indicated that GNMA is considering requiring some type of downpayment on VA-guaranteed home loans as a condition for raising the maximum VA loan amount for loans in a "Ginnie Mae" loan pool, in accordance with increased guaranty limits in the recently enacted Public Law 101-237. Some of these articles indicated that VA officials privately have told GNMA officials that VA would not oppose imposition of certain types of downpayment requirements. If confirmed, would you oppose or support any form of a downpayment requirement for VA-guaranteed loans whether imposed by GNMA or otherwise?

Answer. My understanding is that VA is not aware of GNMA's current plans in this respect and that Agency has not made any formal announcement of their intention. However, as stated previously, I would oppose any downpayment requirement that is so high that it would prevent a qualified veteran from obtaining a VA guaranteed home loan.

Question 25B(ii). If you support any such downpayment requirement, please describe it.

Answer. As I stated, I would oppose a downpayment requirement so high as to restrict the average veteran from making use of the benefit. However, it is recognized that the existence of a downpayment serves to make the loan less risky and any requirement for a downpayment must be balanced against the Government's needs and those of the veterans it serves.

Question 25B(iii). If you oppose any such downpayment requirement, what actions would you, if confirmed, take to prevent or eliminate them?

Answer. I would work very hard to make sure that any downpayment requirement would not prevent otherwise eligible and qualified veterans from obtaining VA home loans.

Question 26. Would you favor or oppose restricting loan guaranty entitlement to one-time use?

Answer. I would oppose restricting loan guaranty entitlement to one-time use. Program statistics clearly indicate that veterans reusing their entitlement have a lower rate of foreclosure (35 percent lower for the period FY 1979-87) than veterans as a whole. Reuse of entitlement has been very beneficial to veterans and their families as they have relocated to take advantage of better employment opportunities.

Question 27A. On January 18, 1990, the General Accounting Office (GAO) released a report, "Housing Programs: Increased Use of Alternatives to Foreclosure Could

Reduce VA's Losses" (GAO/RCED-90-4), in which GAO concluded that VA could have saved $42 million to $94 million in FY 1987 through the use of alternatives to foreclosure on VA-guaranteed home loans in default. This is not the first time GAO and others have argued for the greater use of such alternatives. The three alternatives described by GAO in this report are refunding (VA pays the lender the outstanding indebtedness, takes an assignment of the loan, and restructures the loan payments according to the veteran's ability to repay), compromise agreement (the veteran sometimes signing a promissory note to repay VA), and voluntary conveyance (the veteran voluntarily conveys the home to VA in lieu of going through foreclosure proceedings). GAO used and recommended VA adopt, a new formula to determine VA's costs in individual cases in proceeding to foreclosure or using one of these alternatives. What are your views on GAO's recommendations for VA to make greater use of those alternatives?

Answer. The Loan Guaranty staff informs me that foreclosure is the most expensive means of terminating a delinquent loan. Alternatives to it will normally reduce VA's claim payment costs and benefit the veteran by keeping a foreclosure off his or her credit record and by reducing the debt he or she may owe the Government as a result of VA's claim payment. VA has therefore long favored pursuit of alternatives to foreclosure and established a program of supplemental servicing to personally contact veterans and try to assist them in making arrangements to keep their homes or otherwise avoid foreclosure. This is an area in which there is always room for improvement and, in view of the potential benefits to VA and veterans, I believe VA should continue to work with delinquent veteran borrowers on an individual case-by-case basis to try to find the appropriate solutions to their problems.

Question 27B. If you agree that the use of these alternatives should be increased, please describe the steps you would take to achieve that goal?

Answer. I understand that VA's supplemental servicing policies have been based on the requirement that borrowers be held responsible for reimbursing the Government for any claim paid as a result of a loan default. This requirement limited the number of cases in which VA could pursue an alternative to foreclosure which would require the Government, in return for the veteran's co-operation, to release him or her from this liability. A significant number of program changes have taken place since the time the GAO researched their report. The Mortgage Home Loan Indemnity and Restructuring Act of 1989 will, for loans closed in 1990 and afterwards, release the veteran borrower from liability to VA except in cases of fraud, misrepresentation and bad faith. For older loans, a proposed regulatory amendment will enable VA to waive or compromise a veteran's liability prior to foreclosure if there is no indication of fraud, misrepresentation or bad faith on the veteran's part and he or she cooperates with VA in pursuing alternative to foreclosure. Both of these developments should reduce the importance of maintaining the veteran's liability and increase use of cost-saving alternatives to foreclosure.

Question 27C. Please evaluate the accuracy and appropriateness of the GAO formula and whether you believe VA should adopt it.

Answer. I am not personally familiar with the GAO model. I understand that several VA field stations were provided with the program by GAO and reported that they found no benefit from its use. This supports the conclusions of our Loan Guaranty staff that the model only discloses what should be obvious to an experienced loan servicer in a field station and that servicers can better use their time in dealing with the unique situation which confronts each delinquent veteran.

Question 28. Please describe the steps you would take to improve processing of VA-guaranteed home loan applications, appraisals, claims, and other documents.

Answer. A Loan Production System (LPS) to automate all or a large majority of the work processes in loan guaranty is in various stages of design and implementation. LPS is designed to provide the same high quality level of services to the veteran at lower cost to VA.

Other improvements, such as continuing emphasis on automatic loan processing by the lender, use of the new Lender Appraisal Processing Program (LAPP) and further automation efforts, should continue to improve timeliness.

Question 29. Do you believe that current VA counseling efforts aimed at reducing loan defaults are adequate?

Answer. I have not personally observed counseling efforts used at field stations. I understand that counseling approaches focus on reinstatement of the loan and avoidance of foreclosure.

I have been informed that the Houston Pilot Project which was recently concluded demonstrated that there is a correlation between VA servicing efforts and reduced foreclosures. During the year the project was in place, 13,672 new loan defaults were reported to our Houston office. VA representatives made more than

20,000 personal contacts with veterans (more than twice the number achieved during the prior year). These efforts resulted in 8,908 loans being reinstated. The number of claims filed was 18% less than in the previous year.

Question 29A. If not, what additional funding and FTEE levels for this function do you believe would be necessary to achieve acceptable loan servicing efforts by VA personnel?

Answer. In FY 1990, appraisal and loan origination workloads are lower than what was estimated in the FY 1990 Congressional Budget Submission. However, this year's budget submission calls for a significant increase in employment for FY 1990 directed specifically toward delinquent loan servicing and property management functions at selected field stations.

Question 29B. What steps would you take to achieve such acceptable servicing?

Answer. I have been advised that substantial efforts have been made to improve the quality of servicing. In fiscal year 1989, VBA sponsored a management seminar for Loan Service and Claims Chiefs and 2 week-long training seminars for newly appointed Loan Service Representatives. Each seminar concentrated on quality servicing, foreclosure alternatives and debt reduction.

With the implementation of the preforeclosure debt waiver regulation and the provisions of the Veterans Home Loan Indemnity and Restructuring Act of 1989, combined with staff development and modernization of our ADP systems, VBA should make it possible for our field stations to increase the number of loan reinstatements and focus on alternatives to foreclosure.

Question 30A. To the extent that active-duty military personnel default on their VA-guaranteed home loans, do you believe the military departments contribute to this problem?

Answer. I have no reason to believe that the military departments contribute to foreclosure of guaranteed loans. Similar to civilian veterans, defaults on home loans by military personnel are primarily attributable to downturns in local economies. In addition, like other mortgage borrowers, military personnel sometimes mismanage their financial affairs and become over-extended in their use of credit or experience marital difficulties which lead to foreclosure.

Question 30B. If so, do you feel these departments should share the financial burden currently absorbed by VA and the servicemember?

Answer. Given my response to the previous question, I do not believe the services should share the financial burden.

Question 30C. Please answer parts A and B specifically for the manufactured housing program and, based on your experience with service personnel use of this benefit, please State whether you favor termination of the VA manufactured housing program and give the reasons for your position.

Answer. I also believe the military does not contribute or is responsible for foreclosures on manufactured housing loans. However, I do support termination of this program. VA's IG reported that the foreclosure rate has been about 27 percent, generating excessive costs in relation to the benefit provided. In addition, the report states that the original intent of Congress was that this program provide assistance to lower income veterans of the Vietnam Era returning to civilian life. However, in recent years 50 percent or more of the loans have gone to active duty military. There have been particular problems with loans to young enlisted personnel who have had difficulties disposing of or renting these units upon transfer to new assignments or separation from duty.

Question 31A. Deputy Secretary Anthony Principi testified on June 22, 1989, that "there is little difference" between VA's financial risk in a recourse sale of vendee loans and its risk in a structured, nonrecourse sale of such loans. The Committee also heard testimony from the Congressional Budget Office that the primary difference in VA's long-term return from each type of sale is the millions of dollars in fees collected by advisors, underwriters, and other private-sector consultants that are necessary to conduct a structured, nonrecourse sale. The expected January loan asset sale has been characterized by some as the equivalent of a structured, recourse sale. Do you agree with the OMB policy directing VA to sell off these valuable assets? Please explain your answer.

Answer. It is my understanding that VA has been selling vendee loans for approximately three decades for the purpose of raising cash for deposit in the Loan Guaranty Revolving Fund to help cover the costs of program operations. As long as it is necessary for VA to seek appropriations to meet its obligations, loan sales serve to reduce the level of appropriations needed and should be continued.

Question 31B. Do you believe that structured recourse or nonrecourse sales are in the best financial interest of the loan guaranty program? Please explain your answer.

Answer. I have been advised that structured sales provide a number of benefits over the nonrecourse auction sale format used before June 1988. The structured sale format enables VA to use the services of marketing professionals to ensure a fair price is obtained for the loans sold; under the auction format VA was dependent on bidders' interest and there was no certainty the prices offered would be the best obtainable. In addition, the structures used for VA's nonrecourse sales and for the limited recourse sale (which closed on January 25) eliminate the need for VA to dedicate future resources to the servicing and termination of repurchased loans and make it highly unlikely future staffing and budgetary resources will need to be devoted to payment of claims.

Question 31C. In what ways, if any, would you propose to modify the way VA sells its vendee loan assets?

Answer. Each of the structured sales VA has been involved with has represented some degree of innovation over prior sales. Cash sale proceeds have improved from 57.9 cents on the dollar to 83.7 cents on the dollar. We will continue to work with our financial advisor, loan underwriters and all other involved parties to explore alternative sale structures which may be beneficial.

Question 32A. Do you believe that the foreclosure rate on VA loans is due in substantial part to inadequate underwriting standards?

Answer. It is my understanding that the primary reasons for foreclosures of VA loans, as is the case for FHA and conventional mortgages, have been local economic conditions and changes in the veteran's personal circumstances. I do, however, believe that underwriting plays a role in avoiding foreclosures, and I have been briefed on several recent changes to the VA credit standards intended to help make better quality and less risky loans. In fact, I was pleased to learn that there has bean a sharp decline in short-term defaults in recent years which can he attributed to the measures taken to improve the quality of underwriting. The proportion of total liquidated VA loans terminated in the first 2 years declined from 63 percent in 1981 to 23 percent in 1989. The decline for first year defaults was even more dramatic—from 40 percent in 1981 to 7 percent in 1989.

Question 32B. If so, what would you do to change underwriting standards?

Answer. I will ensure that my staff continues to analyze VA underwriting standards and look for ways to strengthen them—without tightening them to the point where deserving veterans fail to qualify for loans.

Question 33A. Do you believe VA takes adequate steps to notify veterans when an individual defaults on a VA-guaranteed loan that the individual assumed from the veteran and on which the veteran remains liable to VA?

Answer. Over the past few years, I understand that VA policies with respect to notification efforts have been expanded and emphasized to a much greater extent. Our modernization has enabled VA employees to locate addresses more quickly for veterans in receipt of other benefits, or those with outstanding insurance coverage.

I believe these efforts should ensure that most veterans are aware of defaults on their GI home loans. I also have been advised that this issue may become less important in the future as a result of changes in the law governing the program. Loans for which commitments were made on or after March 1, 1988, require approval of VA or the loan holder prior to assumption, and in almost all cases the veteran will be released of liability to VA. Moreover, recent changes to the law governing waiver of debts owed VA should result in the establishment of guidelines to the effect that, if the veteran sold the property without any evidence of fraud, misrepresentation, or bad faith, then any debt associated with the loan should be waived.

Question 33B. If not, what additional steps would you take?

Answer. Given my response to the previous question, I do not believe further steps need to be taken.

Question 34A. As you may know, a lawsuit (*NARS* v. *Turnage*) was brought by an association of radiation-exposed veterans to challenge statutory attorney-fee limitations. In the course of discovery proceedings, there appeared to be a significant breakdown—especially among management-level VA employees—in proper supervisory responsibility and, as a result, the court levied a $115,000 court fine on VA. Assuming you are confirmed, will you please review the issues regarding VA's adjudicative process that were raised by the *NARS* litigation and report to the Committee on your degree of satisfaction that all proper corrective actions were taken in this matter?

Answer. Yes.

Question 34B. On December 5, 1989, Representatives Montgomery and Edwards and I wrote to Secretary Derwinski regarding allegations of prohibited personnel practices stemming from an employee's testimony at a 1987 joint congressional hearing. On January 9, 1990, Secretary Derwinski advised that he was seeking a full accounting. I am enclosing, at the end of these questions, copies of the referenced correspondence and ask that you also look into the matter and report back to the Committee as soon as possible. Would you agree to do so and, if so, when may we have your report?

Answer. Yes. I understand a comprehensive investigation of the allegations is being conducted. As soon as the investigation is completed, I will review these findings and any other pertinent information and give you a report.

Question 35. Were you exposed to Agent Orange during your military service? If so, please describe the circumstances and extent of such exposure.

Answer. I am not aware of any exposure to Agent Orange during my military service.

Question 36. Have you in the past or are you now receiving any VA benefits? If so, please describe any such benefits.

Answer. I have benefited from several VA programs. While on active duty, I used the GI Bill to pursue some course work at an institution of higher learning. My mortgage on my home is a VA guaranteed loan, and I am insured under the Veterans' Group Life Insurance program.

Question 37A. Do you support the basic philosophy of the military disability retirement pay system and the VA disability compensation system that the Government should compensate for disabilities that arise in service or may be presumed to have arisen in service without a requirement that some activity, event, or hazard in service caused the disability?

Answer. Throughout my time in the military, I always felt that the military disability retirement pay system and the VA disability compensation systems were part of my total compensation. Since my arrival at VA, I have learned nothing that changes my support for the philosophical underpinnings of these systems.

Question 37B. Do you believe that the basic philosophy of the two systems needs to be the same? Please explain your answer.

Answer. Yes, I believe that the two systems should stem from a common philosophy. The military retirement system and the disability compensation program are inextricably linked to each other. This relationship is clearly acknowledged by the requirement that a veteran waive military retirement pay in order to receive disability compensation and by the fact that both VA and the military use the same rating schedule.

Question 38. Please discuss your views about the issues, recommendations, and observations contained in the GAO report entitled "Law Allows Compensation for Disabilities Unrelated to Military Service" (July 1989) (GAO/HRD-89-60). Specifically, please describe (A) any aspects of the disability compensation program which you believe, as a result of the issues raised in that report, should be revised or need to be reexamined with a view toward revision, (B) any specific revisions you may support, and (C) your reasons for believing that revisions or reexaminations are needed.

Answer. The GAO report was directed to Congress and provided information regarding alternative eligibility criteria for service-connection. The report carefully emphasized that the findings did not indicate any fault or errors in administering the current provisions of the law.

I am comfortable with the legal basis for compensation as it currently exists in title 38, United States Code.

Question 39. The January 1990 issue of the DAV Magazine stated that OMB's revision of VA's budget submission included a proposal to expedite review of the VA rating schedule and allow the American Medical Association to establish the degrees of disability for the rating schedule. Do you believe it would be appropriate for VA to rely on a nongovernmental trade or professional organization, or place substantial weight on recommendations made by such an organization, to revise a regulatory mechanism to determine entitlement to government benefits?

Answer. It is my desire to obtain the best possible assistance in our effort to update the medical criteria in the Schedule for Rating Disabilities. To that end, we are soliciting comments and suggestions from both Government and non-Government sources, as well as from service organizations and members of the general public. The final decisions on any revisions of the rating schedule will be made by VA, and we will not be relying on the comments of any single source in making those decisions.

Question 40. Please discuss your views on the recommendations contained in the GAO report entitled "Need to Update Medical Criteria Used in VA's Disability Rating Schedule" (December 1988) (GAO/HRD-89-28).

Answer. GAO's recommendations for a comprehensive and systematic review of the rating schedule are designed to assure more consistent disability ratings among all VA regional offices. I support that goal and believe that updating the medical criteria in the rating schedule to remove outdated terminology and revise ambiguous classifications is one method of achieving that end.

Question 41A. The Reagan administration was widely and strongly criticized for its periodic efforts to reduce drastically the Social Security disability rolls. Some veterans organizations have warned that a similar move is afoot to reduce VA disability rolls. Are you aware of any such plans to make broad or categorical reductions in VA disability rolls?

Answer. I am not aware of any plans to reduce VA disability rolls.

Question 41B. If such a plan were proposed, are there any circumstances under which you would support that plan? If so, please describe these circumstances.

Answer. I would need to see any plan before I could comment. I can say, however, that I am opposed to arbitrary, purely budget-driven reductions.

Question 42A. Describe VA's plans and timetable for implementation of section 115 of the Veterans' Benefits Amendments of 1989 (Public Law 101-237), which requires VA to provide timely notices of decisions affecting the provision of benefits to a claimant which include, in cases where a benefit has been denied, a statement of the reasons for the decision and a summary of the evidence considered, and State whether you agree with this plan and timetable.

Answer. I understand that VBA's field stations have already been provided with implementing instructions and that claimant notifications released on or after February 1 will be in compliance.

Question 42B. State whether you agree with the thrust of this new statutory provision.

Answer. I agree with the thrust of section 115, Public Law 101-237, the purpose of which is to improve the quality of our correspondence with claimants.

Question 42C. Please also describe specifically the types of cases which will be considered as those in which a benefit has been denied (for example, cases in which only a partial award has been made) and State whether you agree with that proposed scope of coverage.

Answer. I am informed that we consider all cases in which any benefit sought is not fully granted. I fully support this plan.

Question 43A(i). The National Vietnam Veterans Readjustment Study conducted by the Research Triangle Institute (the RTI study) found that 15.2 percent of male Vietnam theater veterans and 8.5 percent of female Vietnam theater veterans suffer from current full-blown cases of posttraumatic stress disorder (PTSD). Other studies report that veterans from WWII and the Korean conflict also suffer, many years after their service is completed, from PTSD related to that service. VA's Special Committee on PTSD has noted that PTSD is sometimes perceived by medical professionals, the general population, and PTSD sufferers themselves to be a condition of "weakness" and an inability to cope with the stresses that a majority of those who served in combat handle more readily. As Chief Benefits Director, would you maintain, personally and within VBA, a sympathetic and helpful attitude toward all veterans who seek disability compensation, including those with PTSD or other mental-health problems that they claim are related to their service?

Answer. Yes, I would.

Question 43A(ii). In the case of those claiming compensation for mental health problems, the claims process itself can be quite stressful—although this is surely not limited to such claimants—and may serve to aggravate the problem for which compensation is sought. Thus, would you agree that there needs to be a special sensitivity in the handling of such claims?

Answer. Yes I do agree. In the short period of time I have been associated with the VBA, I've found that everyone feels this need and works at making our process sensitive to the needs of all claimants, including those with mental health problems.

Question 43B. The Fifth Annual Report of the Chief Medical Director's Special Committee on PTSD expressed concern about the level of communication between VBA personnel and VA mental health professionals with expertise in identifying PTSD and conducting interviews with PTSD sufferers. One of the problems identified by the Special Committee concerned the role of VBA's PTSD Claims Coordinators, whose positions were established pursuant to recommendations made in the Special Committee's First Annual Report. The Special Committee found that "the purpose, goals and objectives for PTSD Claims Coordinators have never been specified" and that "it also appeared that the publication of the names and phone numbers of PTSD Claims Coordinators nationwide had not been widely circulated." (Page 36, Fifth Annual Report.) Please describe the current role of the PTSD Claims Coordinators at Regional Offices and what indications there are as to whether they are sufficiently consulted by adjudication personnel handling PTSD claims.

Answer. The primary function of the PTSD coordinator in the regional office is to serve as a contact point and liaison for adjudication questions which arise pertaining to cases involving PTSD issues. He or she also acts as liaison with pertinent personnel at VA medical facilities and outreach centers when there has been a problem in obtaining necessary evidence or records in a specific PTSD case. I have no indications that the coordinators are not sufficiently consulted.

Question 43C(i). Please describe what coordination exists between VHS&RA and VBA in the areas of education and training of adjudicators for the processing of PTSD claims and State whether you believe such efforts are sufficient, and, if not, please describe your plans to increase such efforts.

Answer. Coordination is taking place at both the local and Central Office levels. Many of our regional offices have held joint meetings with their local medical centers for the purpose of exchanging information and resolving problems associated with PTSD patients and claimants. I am advised that PTSD has been one of the major topics at the training sessions the Compensation and Pension Service holds each year for rating and authorization personnel from our regional offices.

The Compensation and Pension Service is in the midst of collaborating with VHS&RA on a videotape to be used for the training of VA physicians who do PTSD exams. The film will also be shown to regional office personnel.

While I believe we are doing a good job of training our adjudicators in the PTSD area, I will encourage both VBA and VHS&RA to continue to explore possibilities for educating our employees on this important topic.

Question 43C(ii). Please describe the Department's efforts in establishing an Adjudication Training Academy, and your assessment of the training provided at the Academy on PTSD and the adjudication of PTSD claims.

Answer. In FY 1990, we will begin the Adjudication Training Academy that has been planned and discussed for a number of years. I have been informed that for the initial year we will conduct three six-week sessions for a total of 94 of our newest Veterans Claims Examiners (VCE's). Each VCE will receive comprehensive training in the areas of compensation, pension and education.

A portion of the curriculum will involve processing of compensation claims, including PTSD. Instruction will also include lecture and discussion in areas of special interest topics, such as PTSD.

Question 43C(iii). Please describe the Department's plans for continuing the Academy in fiscal years 1990 and 1991 and to continue, establish, or improve the PTSD component of training for adjudicators.

Answer. The initial year of the Academy will be FY 1990, with training provided as described in the previous question.

For FY 1991, the Academy will continue this essential training for new VCE's which will, in time, become a foundation for all future training programs. With sufficient funding, the Academy will expand the training to include journeyman senior VCE's and the rating specialist. During the actual training for the rating specialist, instruction will include key elements of practice and will discuss topical issues of concern, such as claims for PTSD. At these sessions, we will emphasize VBA's policies and procedures in these special interest areas. In addition, a program of instruction involving video cassettes made available to field stations is planned.

Question 43D. Are you satisfied that rating specialists are generally provided adequate training and education to enable them to assign fair and accurate ratings for PTSD and other mental health disabilities?

Answer. I have no evidence that training is not adequate. However I will be reviewing the training needs of VBA.

Question 43E. During the Committee's July 14, 1988, hearing on PTSD, Mr. Grady Horton, Deputy Chief Benefits Director for Program Management, testified that when statistics from VA's computerized data base showed that a regional office's approval rate for PTSD claims is 15 points higher or lower than the national average, that office is asked to review a 10-percent sample of their PTSD claims and make a report to the Compensation and Pension Service in Central Office. Pursuant to a request made by the Committee's Chief Counsel at that hearing, such reports have been submitted to the Committee on a quarterly basis. If confirmed, would you continue the practice of requiring regional offices with approval rates 15 percent above or below the national average to sample claims and report to Central Office, and of providing copies of those reports to this Committee?

Answer. Yes, as long as the Committee finds these reports useful.

Question 44A(i). Please describe your personal record in the EEO field during your career in the Marine Corps and afterward in the private sector.

Answer. Although never assigned specific duties as an EEO officer, I have supported, by precept and example, EEO throughout my career both in the uniformed Marine Corps and in the Marine Corps' civilian work force.

The Armed Services as a whole have been leaders in the EEO field as it pertains to minorities. During my service, the Marine Corps experienced a continuing difficulty in attracting minority officer candidates and in retaining minority officers in the career force. As Director of Personnel Management, I instituted a program of intensive monitoring of the careers of minority officers to ensure their receiving the proper assignments to keep them competitive for promotion. I also instituted a program to carefully monitor the job classification of newly-commissioned minority officers with the aim of placing them in a broad spectrum of jobs, thereby increasing their visibility throughout the Marine Corps in the hope that their presence would encourage more young enlisted Marines to aspire to become officers.

As Director of Personnel Management, I also was instrumental in instituting the first comprehensive study to determine the maximum number of women we could have in the Marine Corps consistent with our assigned missions.

The nature of military service precludes doing much in the EEO field for the elderly and the handicapped. I am pleased, however, in what I have learned about the VBA record in these, and indeed, in all aspects of EEO.

Question 44A(ii). Have you ever been the subject of an EEO complaint and, if so, was/were such complaint/complaints resolved and how?

Answer. I have never been the subject of an EEO complaint.

Question 44B. Please describe your view of the priority EEO efforts should be afforded and what steps you would take to monitor Regional Offices' EEO practices and to encourage equal employment opportunity throughout the VBA.

Answer. I believe equal employment opportunity must receive high priority from all levels of management in the VBA. Our mandate in implementing civil rights laws and affirmative action guidelines is to eliminate the effects of past employment discrimination. We also must remove any present barriers which prevent individuals—particulary minorities, women, disabled veterans and handicapped people—from obtaining employment, receiving training and career development opportunities and advancing to higher levels within the organization.

Each regional office Director will be held accountable for establishing a climate which fosters EEO at his or her station. I will review regional office Directors' performance standards to assure that, to the extent consistent with staffing needs and resource availability, they vigorously pursue EEO coals. Annual Affirmative Employment Program accomplishment reports will be reviewed closely to measure progress of regional office Directors in achieving and/or maintaining a representational workforce. Recommendations for improvements in regional office Directors' performance in EEO will be made accordingly.

Question 44C(i). Please describe the training and education in EEO matters that regional office Directors receive.

Answer. During orientation and training, new regional office Directors are exposed to EEO responsibilities by VBA EEO specialists and through training sponsored by OPM. An Equal Employment Manager for VBA at the Central Office level periodically transmits information to regional office Directors and personnel officers on EEO developments, procedures, and case law which may affect their EEO programs. Regional office Directors also receive EEO updates and are afforded an opportunity to discuss EEO issues at the annual Directors' conference.

Question 44C(ii). Do you believe that such training and education is sufficient and, if not, what steps would you take to improve it in this regard?

Answer. While regional office Directors must be held accountable for the progress of EEO at their sites, it is important that first and second level managers and supervisors receive proper training in equal employment opportunities and affirmative action programs. To this end, the VBA and VHS&RA have undertaken a joint effort to share EEO training programs for managers and supervisors at Regional Medical Education Centers, (REMEC's). Training efforts will continue to emphasize top management interest in and attention to EEO goals and objectives.

Question 45. Please describe your views on the doctrine of reasonable doubt as it relates to VA's adjudication of claims.

Answer. The law and VA's internal policy have long provided that reasonable doubt will be resolved in favor of the claimant. As I understand it, reasonable doubt means an approximate balance of positive and negative evidence which does not satisfactorily prove or disprove a claim. In such situations, it is consistent with the mission of VA to grant the benefit being sought and I will strongly support the continued application of this important principle of claims adjudication.

Question 46. What are your views on the importance of maintaining a VBA presence in each area currently served by a VA regional office for purposes of providing face-to-face outreach, benefits counseling and personal appearances at adjudication hearings while, at the same time, merging into larger, consolidated processing centers the program functions of several regional offices (such as the loan guaranty responsibilities in the New England states or the telephone interview activities or fiduciary activities of several states)?

Answer. I firmly believe that the VBA should provide face-to-face service to the maximum extent practical. The Agency's primary goal is to provide high-quality, timely service to each individual who seeks it. Greater availability of face-to-face contact is, in my opinion, one of the best ways of improving our service to veterans and their families.

In that regard, this question covers a number of individual issues which involve VBA's continuing effort to provide high quality service to veterans and beneficiaries through the use of innovations available in processing and public contact. I understand that the VBA has experienced a considerable shift in the veteran population and a corresponding shift in regional office workload patterns. These workload changes have compelled us to examine a number of alternatives which would enable us to maintain or increase existing levels of service to veterans in all areas and which also show potential for improved quality and efficiency in benefits delivery. To maintain an effective benefits delivery system requires that we assess both the needs of an aging veteran population, and the organization of our field structure.

I will consider options to enhance personal service to veterans and beneficiaries, with a secondary concern being streamlining claims processing. While costs are considered, these initiatives are not driven by attempts at cost cutting. Each of the issues raised are being fully developed by VBA to assure that all options are considered and that any plan that is proposed has as its primary goal the provision of high quality service.

Question 47. The Committee has seen press reports and internal VA documents about VA plans to merge the functions of compensation and pension claims processing operations at six VA Regional Offices into larger divisions at other stations. The reports have identified planned relocations of the following stations:

Wilmington, Delaware, to Philadelphia, Pennsylvania;

Togus, Maine, and White River Junction, Vermont, to Manchester, New Hampshire;

Fort Harrison, Montana, to Denver, Colorado; and,

Fargo, North Dakota, and Sioux Falls, South Dakota, to St. Paul, Minnesota.

Please State whether you agree with those plans and explain your answer in terms of the factors specified in question 46.

Answer. The press reports and internal documents that you have seen reflect preliminary initiatives to provide high quality service to veterans and beneficiaries, as mentioned in my response to question 46. I am advised that our efforts are directed at enhancing personal service and taking advantage of innovations in technology and claims processing, but that these issues are only in the discussion/developmental stage, have not been recommended nor approved for implementation, and are not part of the VBA's budget submission. Should any of these initiatives prove feasible, I can assure you that Congress will be properly notified.

Question 48. In response to prehearing question 19C, regarding the funding levels and FTEE levels necessary to achieve appropriate timeliness standards for processing VA disability compensation claims, you indicate that the FY 1990 budget reflected an increase of approximately 150 FTEEs. The VA FY 1991 budget indicated that the employment for Compensation, Pension, and Education increased from FY 1989 to FY 1990 by only 88 FTEE, and that only 7 additional FTEE are requested for FY 1991.

Question 48A. Please explain these disparities.

Answer. The approximately 150 FTEE represent the increase from the 1990 budget estimate of 3,593 FTEE to the current FY 1990 budget number of 3,752. The apparent disparity occurs because the 1990 budget estimate (3,593) was approximately 70 FTEE fewer than the end-of-year actual 1989 FTEE of 3,664.

Question 48B. Given the considerably fewer additional FTEE in the budget that you indicated, do you still believe VBA can actually improve the timeliness of CP&E claims processing in FY 1991?

Answer. Estimates made during the budget process suggest that this number of additional staff will let the VBA make some improvements. Our ability will undoubtedly be impacted by the necessity to provide better notices to claimants.

Question 49. In response to prehearing question 20C, regarding your plans to reverse the recent trend of declining outreach capability, you noted several automation efforts. In response to question 46, regarding the importance of face-to-face outreach, you noted that VBA should provide face-to-face service to the maximum extent practical, and you stressed this in our meeting in my office on January 24. The VA FY 1991 Budget indicates a reduction of 15 FTEE in Veterans Services. Do you not see a need for additional staffing in Veterans Services in order to bolster outreach capabilities?

Answer. Certainly in most cases, face-to-face public service delivery is to be preferred over more impersonal methods. I do not know whether current authorized staffing is being used to maximize face-to-face service. As I indicated earlier, this will remain an important priority of mine if I am confirmed.

Question 50. In response to question 22, regarding the effectiveness with which VBA has utilized special contract funding authority to provide counseling for VA-administered education assistance benefits, you reported that use of readjustment benefits funds for contract counseling is making improvements on behalf of veterans and that you expected the number of clients using "the centers" to increase significantly now that FY 1989 contract negotiations are concluded.

Question 50A. To what centers were you referring?

Answer. These contract counseling centers are facilities such as college or university counseling centers or rehabilitation facilities which can provide the appropriate services. Qualified individuals may also work under these contract provisions, but still retain the designation of "counseling center" for the purposes of contract requirements. Service providers in counseling centers are expected to meet the educational and experience qualifications applicable to VBA counseling psychologists.

Question 50B. How much was expended under this legislative authority in FY 1989, is planned to be expended in FY 1990, and is included in the President's budget for FY 1991?

Answer. Actual expenditures in FY 1989 were $22,180. At the end of the first quarter of FY 1990, $46,000 had been used for contract counseling. Although I cannot be precise at this time, we expect that this figure will grow for the remainder of FY 1990 and throughout FY 1991.

At first blush, I find our actions to date disappointing and I intend to gain a further understanding of our progress in order to ensure that contract funding is more effectively utilized. I would be pleased to provide you with a more complete answer after I become familiar with this issue.

Question 51. In response to questions 23A and B, regarding the appropriateness of the large average caseload for VA vocational rehabilitation specialists, you agreed that caseloads were too high and were a critical issue but stated that you had not yet formulated a plan to deal with them. I understand that only one VBA regional office has a caseload less than the program standard of 150 cases per vocational rehabilitation specialist and that in Los Angeles the caseload is 201, in San Diego it is 254, and in San Francisco it is 310. Veterans seeking vocational rehabilitation are in applicant status in Los Angeles for 135 days, in San Diego for 151 days, and in San Francisco for 117 days. Private firms that do counseling as a business have as a goal of seeing clients within 72 hours of a contact, believing that the benefits of their services are decreased with time delays. Do you at this point have enough information to recognize that additional counseling personnel are needed?

Answer. In the 2 weeks I've been here, I haven't been able to examine this area in any detail and I'm not in a position to know if increased staffing is the solution. However, I intend to explore this important issue as I become more knowledgeable about the VBA's benefit program delivery systems.

Question 52. In your response to prehearing question 25A, you State that you "would oppose any downpayment requirement so high that it would prevent otherwise qualified and deserving veterans from obtaining home loans."

Question 52A. It is clear to me that the administration-proposed requirement for a 4-percent downpayment—especially combined with the administration's proposed 40 percent increase in the loan fee—would prevent some "otherwise qualified and deserving veterans" from using their VA entitlement to buy a home. Don't you agree?

Answer. The proposed downpayment would mean that some veterans would not be able to obtain a loan. I believe, however, that we do a disservice to veterans when we guarantee loans that they are financially incapable of handling.

It should be noted that the proposed downpayment requirement would be the least stringent of any Federally-backed mortgage loan program. For example, the FHA 203b program, the one similar to VA's program, requires a 3 percent downpayment first $25,000 and 5 percent for amounts above $25,000. Under FHA's program, the downpayment on a $75,000 loan would be $3,250, as opposed to $2,000 under the program proposed for VA.

Question 52B. Also, do you doubt that a GNMA requirement of a 10 percent downpayment on any loan amount over the current GNMA limit on VA loans would prevent some "otherwise qualified and deserving veterans" from using their VA entitlement?

Answer. As I previously stated, we have not seen such a proposal by GNMA. Clearly, if such a policy did come into being, it is possible that some "otherwise qualified and deserving veteran" might be prevented from using their entitlement. However it seems likely that veterans obtaining loans above the current GNMA maximum of $144,000 would be second-time homebuyers who would be able to utilize the equity from the sale of their first home for any downpayment required.

- *Question 53.* In your response to prehearing question 27A, you State that "foreclosure is the most expensive means of terminating a delinquent loan. . . . VA has therefore long favored pursuit of alternatives to foreclosure. . . ." However, the GAO report to which that question referred found that over 97 percent of the defaults GAO examined were terminated by foreclosure.

Question 53A. Don't you believe that the use of alternatives to foreclosure in less than 3 percent of defaults demonstrates that VA is not giving adequate consideration to the pursuit of alternatives to foreclosure?

Answer. I agree with Secretary Derwinski's response to the draft audit. The response noted that GAO limited its study to a review of foreclosed loans. This provided an unbalanced evaluation of VA's effectiveness. When a default is reported to VA, the veteran is usually 4 months delinquent with his or her payments. Although this is a serious situation, it is seldom immediately evident that the default is insoluble and that one of the alternatives to foreclosure cited by GAO should be promptly pursued. Accordingly, the first focus of VA supplemental servicing is on helping the veteran to reinstate the loan and cure the default.

During FY 1989, 41,999 loans ware terminated by foreclosure. At the same time, however, 116,290 defaults were cured. These figures indicate to me that VA's priorities in servicing are in the right place.

Question 53B. In your response, you acknowledged, "This is an area in which there is always room for improvement. . . ."

i. May I have your personal assurance that you will make a closer, in-depth review of this issue with a view toward ensuring nationwide that VA does make optimal use of alternatives to foreclosure?

ii. Would you please report back to me on the results of your review by May 1, 1990?

Answer. Yes, I'll be happy to do so.

Question 54. Your response to prehearing question 29A stated that "this year's budget submission calls for a significant increase in employment for FY 1990 directed specifically toward delinquent loan servicing and property management functions at selected field stations."

Question 54A. Please explain what is meant by "a significant increase in employment for FY 1990" and by "this year's budget submission calls for."

Answer. The loan guaranty program's current 1990 employment estimate is 2,165 FTEE. This is an increase of 132 FTEE over the amount requested in the 1990 President's Budget (2,033 FTEE). The current employment estimate reflects an increase of 244 FTEE for loan servicing and property management activities, and 15 FTEE for the Lender Monitoring Unit. The increase is partially offset by a reduction of 127 FTEE reflecting reduced requirements in the appraisal and loan origination activities (85 FTEE) and savings associated with the installation of the Loan Production System (42 FTEE).

Question 54B. Is the administration "calling for" something that was not provided for in the FY 1990 appropriation?

Answer. No. Loan guaranty program employment for FY 1990 is consistent with the Congressional action regarding the application of additional resources for loan servicing.

Question 55. Pre-hearing question 31A noted the Deputy Secretary's testimony that "there is little difference" between VA's financial risk in a recourse sale of vendee loans and its risk in a structured, nonrecourse sale of such loans and also noted the extra costs of conducting a nonrecourse sale. In light of these factors, isn't it in VA's best interest to use with-recourse sales rather than structured sales?

Answer. I understand that VA's most recent loan sale combined a form of Government recourse with the securitized structured sale format. In this sale, as in the nonrecourse sales held during the last 2 years, VA has obtained a clear benefit through eliminating the need to pay claims and reacquire loans for servicing and/or termination and the return of the security property to VA's inventory. In addition, VA has been involved in the process of marketing the securities which are collateralized by the loans in a structured sale in order to ensure that the prices paid are comparable to those being paid for other mortgage-backed securities. With our nonstructured recourse sale auctions, there could be no guaranty that the prices offered by bidders were the best prices which could be obtained.

I acknowledge that the structured sale entails costs which would not be incurred in a nonrecourse auction sale. According to my staff, these costs have been reduced over the course of time through improvements in the sale process. For our most recent sale, they amounted to less than 1 percent of the principal balance of the loans which were sold. There is presently a study under way to determine the extent to which these costs are offset by the benefits of more efficient marketing, and I will be pleased to share the results with you when it is completed.

WRITTEN FOLLOWUP QUESTIONS FROM CHAIRMAN CRANSTON TO D'WAYNE GRAY AND THE RESPONSES

Question 1. I agree with the disappointment in VBA's utilization of special contract funding that you expressed in your response to question 50B, and appreciate your attention to this matter. Would you please provide me with a more complete answer by March 1, 1990, if confirmed?

Answer. Yes.

Question 2. In prehearing question 9, I asked how you planned to evaluate the Management Efficiency Pilot Program and make use of the findings. Your response was that you would do what was necessary to ensure that program integrity was retained, that controls were in place, and that the results were documented. I am attaching, for your review, prior correspondence I have had with the Department on the evaluation component for MEPP. If confirmed, would you please provide a report by March 1, 1990, more fully explaining the program integrity being retained, the controls currently in place, and the types of potential results being documented, as well as whether you are satisfied that an appropriate evaluation component is in place for this program?

Answer. Yes.

Question 3A. Your response to prehearing question 18, regarding the use of VBA personnel according to their function, indicated that some regional offices have been successful in having loan guaranty functions performed in the Veterans Services Division (VSD). This seems to me to be an approach that should be encouraged. Do you agree?

Answer. I agree that this seems to be an approach that should be encouraged where circumstances are favorable for its implementation.

Question 3B. If confirmed, would you please review and report by March 1, 1990, the primary reasons for station variances, considering the degree to which local managers might be receptive or resistant to new ideas, the extent to which program managers might be protective of their "turf," and the adequacy of VSD training in loan guaranty issues. Please also comment in your response by March 1 on the degree to which there now might be a need for VA Central Office guidance to the field in order to improve VBA resource efficiency in this area.

Answer. Yes.

Question 4. I agree with your assessment in prehearing question 20 that outreach is an integral part of VBA's outreach capability that is proposed in the FY 1991 budget. If confirmed, please provide by March 1, 1990, a more complete report on the new outreach techniques now being explored, the extent to which VBA's relationship with Vet Centers has increased and improved through cross-training and improved communications, and the extent to which VBA is now involved, and plans to be involved through FY 1991, with the Department of Labor's National Veterans' Training Institute Program.

Answer. I will provide that to you.

Question 5. During your confirmation hearing today, in followup to prehearing questions 37 and 38, I asked you about the GAO report on the VA disability compensation system and whether the VA system and the military disability retirement system should be based on "casual" or on "temporal" connection with service. You answered, in part, that you were "comfortable" with the current VA compensation system and, in particular, whether and to what extent you are prepared to defend it, both within and outside the Executive branch, from proposals to make the kind of changes suggested in the GAO report?

Answer. I support the "temporal" approach of the current VA compensation primarily because I have never considered an alternative. During my lifetime, it has been an inherent part of the contract between the Nation and those who serve in the Armed Forces.

How strongly I support it, and how strongly I am prepared to defend it, depends entirely upon what is offered as a substitute. My only absolute position is that any change to the benefits system must remain fair to the veteran.

WRITTEN QUESTION FROM SENATOR SIMPSON TO D'WAYNE GRAY AND THE RESPONSE

Question. Certain functions of the Cheyenne VA Medical and Regional Office Center, notably adjudication and vocational rehabilitation, have been taken over by the Denver Regional Office. While I believe this move was intended to improve efficiency and "save money," it would appear that the "consolidation" of these functions has added a layer of bureaucracy, increased paperwork, and resulted in no cost savings at all. Where cases were formerly handled in Cheyenne with direct referral to Washington, DC, now the Cheyenne office sends the paperwork to Denver, where it is then processed before going on to Washington. Thus, the paperwork burden is increased.

A small, efficient office in Cheyenne has been eliminated, and casework for veterans using the Cheyenne, VA has been lost in the shuffle.

Furthermore, it is questionable whether any cost savings have been achieved.

I would be most interested to know whether you would be willing to reconsider this consolidation?

If not, why not?

If so, when would you contemplate doing so?

Answer. I have only the most basic understanding of the Denver/Cheyenne "consolidation" to which the question refers. Given the nature of the concerns expressed, I would be glad to examine VBA's actions.

On March 1, I will report back to you and the committee on the results of my review of this issue.

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